United States Court of Appeals

for the Second Circuit

EXHIBITS

74-1585

United States Court of Appeals
FOR THE SECOND CIRCUIT

SCM CORPORATION,

Plaintiff-Appellant,

against

XEROX CORPORATION,

Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF CONNECTICUT

EXHIBITS AND OTHER PAPERS
Volume I, Pages E1-E494

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This volume contains information designated confidential by Xerox Corporation and is filed under seal pursuant to the order entered herein by the United States District Court for the District of Connecticut on January 8, 1974.

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UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,	:	
Plaintiff,	:	
v.	:	Civil No. 15807
XEROX CORPORATION,	:	
Defendant.	:	

DEFENDANT'S MOTION TO STRIKE THE FIRST AND SECOND CLAIMS AND PART OF THE THIRD CLAIM OF THE COMPLAINT AND FOR A MORE DEFINITE STATEMENT OF PART OF THE THIRD CLAIM OF THE COMPLAINT

Defendant Xerox Corporation hereby moves this Court, on the Complaint and the "Memorandum in Support of Defendant's Motion to Strike the First and Second Claims and Part of the Third Claim of the Complaint, and for a More Definite Statement of Part of the Third Claim of the Complaint", for an order striking the First and Second Claims of the complaint and the portion of the Third Claim predicated on the First with leave to refile without the objectionable allegations and directing a more definite

statement of the vague and ambiguous part of the Third Claim of the Complaint.

Dated: September 14, 1973

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MEMORANDUM IN SUPPORT OF DEFENDANT'S MOTION TO STRIKE

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,	:	
Plaintiff,	:	
-against-	:	Civ. No. 15807
XEROX CORPORATION,	:	
Defendant.	:	

MEMORANDUM IN SUPPORT OF DEFENDANT'S MOTION TO STRIKE THE FIRST AND SECOND CLAIMS AND PART OF THE THIRD CLAIM OF THE COMPLAINT, AND FOR A MORE DEFINITE STATEMENT OF PART OF THE THIRD CLAIM

This memorandum is submitted in support of defendant Xerox Corporation's motion pursuant to Rule 12 of the Federal Rules of Civil Procedure (1) to strike the First and Second Claims and part of the Third Claim of the Complaint because they are excessively verbose and replete with unnecessary and redundant evidentiary detail, as well as irrelevant, immaterial and prejudicial references to a pending proceeding against Xerox by the Federal Trade Commission; and (2) for a more definite statement of a portion of the Third Claim which is so vague that Xerox cannot reasonably be required to frame a response.

Prior Proceedings

Plaintiff SCM Corporation filed its complaint of 46 printed pages on or about July 31, 1973. The Complaint alleges monopolization of the skill and technology of plain paper copying and, as a result, of the manufacture and marketing of plain paper copiers (para. 1). It further avers that the same acts which resulted in monopolization also violated Section 1 of the Sherman Act as contracts, combinations or conspiracies to restrain trade unreasonably, and Section 7 of the Clayton Act as acquisitions which tended to substantially lessen competition in a line of commerce (para. 2). These antitrust charges are embodied in a First Claim for injunctive relief and a Second Claim for treble damages.

The Complaint also asserts a Third Claim which requests a declaration that Xerox' Middleton-Reynolds '006 patent is unenforceable, based in part on the acts alleged in the First Claim, and invalid and that SCM is not obligated to pay past royalties under its 1968 license agreement with Xerox pertaining to coated paper copiers. It also alleges that Xerox violated Sections 1 and 2 of the Sherman Act by reason of its fraudulent procurement of the '006 patent and seeks treble the royalties paid by SCM pursuant to the license.

In its Complaint plaintiff asks for severance of the First and Second Claims, preliminary injunctive relief with respect to the First, and stays of the Second and Third.

Simultaneously with the filing of the complaint, plaintiff also filed (1) a motion for a preliminary injunction seeking an adjudication that Xerox violated Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act and an order requiring the grant of a license to SCM under "all the United States patents and patent applications [Xerox] owns or controls," preventing Xerox from exercising its patent rights by instituting any patent infringement action or claim against SCM or others with respect to SCM's efforts to develop and market plain paper copiers, and denying Xerox certain contractual rights; (2) a motion for a conference returnable September 10, 1973 (which has been shifted by agreement to September 12) to consider the issues raised by the First Claim, related discovery and the scheduling of a date within the next four to six months having "due regard for the convenience of the court and the legitimate pretrial discovery rights of the parties" for hearing and trial of plaintiff's motion for a preliminary injunction; and (3) 61 interrogatories and document requests (many with numerous subparagraphs) relating to the First Claim.

A stipulation was entered into between the parties and "so ordered" by this Court granting Xerox an extension of time to answer or otherwise move against the complaint until September 14, 1973.

Memorandum in Support of Defendant's Motion to Strike

I.

THE FIRST AND SECOND CLAIMS AND PART OF THE THIRD CLAIM OF THE COMPLAINT SHOULD BE STRICKEN BECAUSE THEY ARE EXCESSIVELY VERBOSE AND REPLETE WITH UNNECESSARY AND REDUNDANT EVIDENTIARY DETAIL AS WELL AS PLAINLY IMPROPER REFERENCES TO THE FTC'S PROCEEDING AGAINST XEROX

A. The First and Second Claims and Part of the Third Claim Should Be Stricken As Excessively Verbose And Prolix

Fed. R. Civ. P. 8(a) requires that a pleading:

". . . shall contain (1) a short and plain statement of the grounds upon which the court's jurisdiction depends . . . (2) a short and plain statement of the claim showing that the pleader is entitled to relief, and (3) a demand for judgment for the relief to which he deems himself entitled."

Rule 8(e)(1) provides further that:

"Each averment of a pleading shall be simple, concise, and direct. No technical forms of pleadings or motions are required."

The First and Second Claims of the Complaint and the Third, insofar as it is predicated on the First, utterly fail to satisfy these criteria and should be stricken under Fed. R. Civ. P. 12(f), which contemplates the striking from a pleading of any "redundant, immaterial, impertinent or scandalous matter."

The First and Second Claims assert monopolization with respect to plain paper copiers and allege that the acts which constituted the alleged monopolization are also contracts, combinations and conspiracies in unreasonable restraint of trade and acquisitions which tend to

substantially lessen competition. The claims are predicated on Xerox' alleged acquisition over a decade ago of patents and technology from two independent research organizations (Battelle and Horizons) and certain licensees, Xerox' internal research and development efforts, expansion by Xerox of its product line, Xerox' refusal to grant "meaningful" plain paper copier patent licenses, and certain license arrangements involving Rank-Xerox and Fuji-Xerox. The relief sought in Claim One is exclusively injunctive and that in Claim Two is for treble damages. The Third Claim incorporates the allegations of the First in support of the request for a declaration of the unenforceability of the '006 patent (paras. 176(b) and (c)).

The allegation of the First and Second claims consumes 42 printed pages. Their prolixity is apparent from a comparison with the antitrust complaints filed by Litton in Litton Business Systems, Inc. v. Xerox Corporation, Civil No. 15,137 and Litton Systems, Inc. v. Xerox Corporation, Civ. No. 15,136 (D. Conn. June 28, 1972). While they differ in matters of detail, there are many areas of overlap, and Litton's pleadings cover marketing subjects absent from the SCM complaint. Yet Litton's claims are pleaded in fewer than seven typewritten pages.

SCM achieves this extraordinary length by piling evidentiary detail upon evidentiary detail, including liberal quotations from potential witnesses and documents (e.g., paras. 12, 25, 26, 29, 31, 33(a), 33(b), 33(c), 34, 42(b), 46, 48, 52, 60(b), 64, 74, 77, 80, 87, 88, 92, 119, 121,

137, 170(b) and 170(c)), voluminous statistical data with reference to such matters as numbers of patents, revenue, profit, and research and development expenditure, many specifications concerning each model of Xerox' entire line of copying and duplicating equipment, numbers of Xerox employees, the details of license terms offered by Xerox but never accepted (paras. 13-15, 43, 44, 46, 47, 50, 51, 54, 62-64, 68-70, 72, 73, 75, 81, 95, 97, 109-111, 118, 119), and improper references to the FTC proceeding.* This material has no place in a Complaint and so pervades the pleading of Claims One and Two that they both should be stricken in their entirety.

The precedents dictate that the pleading of evidentiary detail, particularly on this mammoth scale, constitutes a flagrant violation of Rule 8(a) and warrants the striking of a complaint. Thus, in Johns-Manville Sales Corp. v. Chicago Title & Trust Co., 261 F. Supp. 905 (N.D. Ill. 1966), the amended complaint was stricken because it was "anything but a simple, concise and direct, short and plain statement of the claim." (261 F. Supp. at 908). The court noted that the complaint "devotes 69 paragraphs and 39 pages to pleading a single count", criticized the inclusion of "extraneous or at best evidentiary material" in exhibits attached to the complaint, and concluded:

> "Our notice pleading system, which intended to do away with formal pleading requirements, the sport of common

*The plain impropriety of these references is demonstrated in Point I(B), infra.

> law pleading and excessive verbiage, is greatly neglected. The instant complaint is an excellent example of such abuse. When directed to the court's attention by motion such as here the court is obliged to strike excessively verbose and extraneous pleadings." (Id.)

Similarly, in Metropolitan Theatre Co. v. Warner Bros. Pictures, Inc., 12 F.R.D. 516 (S.D.N.Y. 1952) the court struck a 55-page antitrust complaint with leave to file an amended pleading with "simple, concise and distinct averments." (12 F.R.D. at 518). The court declared, in language squarely applicable here, that a study of the complaint "demonstrates that its allegations are prolix, verbose and redundant, that it sets forth an extensive amount of evidence, and contains many conclusory allegations." It accordingly directed, among other things, that "the amended complaint should avoid . . . unnecessary evidence . . . . ." (12 F.R.D. at 517-518).*

*See also Fulton Co. v. Beaird-Poulan, Inc., 54 F.R.D. 604, 609 (N.D. Miss. 1972) ("Although this suit is an antitrust action and requires plaintiff to state with clarity his claim for relief, it is not contemplated that plaintiff set forth in the complaint a detailed history of his relationship with defendant covering a span of twenty years, nor include therein details of an evidentiary nature, conclusory allegations or analogous references."); United States ex rel. Holland v. Maroney, 299 F. Supp. 262, 263 (W.D. Pa. 1969) (complaint "openly and flagrantly" violates Rule 8(a) because "[i]t is an extended, detailed, evidentiary review . . . ."); Walter Reade's Theatres, Inc. v. Loew's, Inc., 20 F.R.D. 579, 582 (S.D.N.Y. 1957) ("It is necessary in an antitrust action for treble damages to set out in reasonable detail the acts complained of, not the circumstances from which plaintiff draws its conclusions that violations . . . have occurred and that plaintiff had been damaged."); Duel v. National Surety Corp., 4 F.R.D. 336, 337 (E.D. Wis. 1943) ("The second part of Paragraph 12 of which defendant complains, alleging that the complaint is based in part upon admissions made by Kambe in certain liquidation proceedings and in part upon a letter written by him, is a mere recital of evidence and has no place in the complaint; it may, therefore, be stricken."); Dellefield v. Blockdel Realty Co., 1 F.R.D. 42 (S.D.N.Y. 1939) (motion to strike granted for failure to comply with Rule 8 since it "contains much evidentiary and unnecessary matter").

The impropriety of pleading evidentiary matter was expressly noted by the Second Circuit in Nagler v. Admiral Corp., 248 F.2d 319 (2d Cir. 1957). Reversing the trial court's ruling striking an antitrust complaint for failure to be sufficiently particular in pleading, the Court of Appeals stated:

> "And yet such pleading of the evidence is surely not required and is on the whole undesirable. It is a matter for the discovery process, not for allegations of detail in the complaint. The complaint should not be burdened with possibly hundreds of specific instances; and if it were, it would be comparatively meaningless at trial where the parties could adduce further pertinent evidence if discovered." (248 F.2d at 326).

The Nagler case also squarely rejected the notion that an antitrust claim requires more detailed pleading than other civil actions. (248 F.2d at 322-24). See also Walter Reade's Theatres, Inc. v. Loew's, Inc., 20 F.R.D. at 582 ("The issues in an anti-trust action may be economic as well as legal, but counsel for the defendants are entitled to a short and plain statement of the claim in order to answer and to prepare to meet the issues presented.").

In sum, there is no justification for SCM's pleading this mass of evidentiary and prejudicial detail. It was not necessary in the Litton complaints, and it stands in stark contrast to SCM's failure to state even the

rudiments of its patent (Third) claim (as described in Point II, infra). Xerox should not be required, in the guise of answering a pleading, to respond to such a mountain of evidence which, as the Court of Appeals stated in Nagler, "is a matter for the discovery process . . . ."

The First and Second Claims of the Complaint and the portion of the Third predicated on the First should accordingly be stricken, and SCM ordered to replead them in compliance with Rule 8.

B. In Any Event, The Complaint's References To The Proceeding Commenced By The Federal Trade Commission Against Xerox Should Be Stricken As Irrelevant, Immaterial And Prejudicial.

The Complaint contains numerous references to the institution by the FTC of a proceeding under Section 5 of the Federal Trade Commission Act against Xerox. The following paragraphs expressly refer to the FTC action.

> "103. In late 1969 the Federal Trade Commission commenced an investigation of Xerox concerning its patent, marketing and otner activities relating to plain paper office copying and xerography."

> "116. In December, 1972, the Federal Trade Commission served notice of a proposed complaint against Xerox, and in January, 1973 served such a complaint against Xerox. The Commission charged that Xerox has violated Section 5 of the Federal Trade Commission Act by reason of its patent, marketing and other activities in the field of xerography."

> "[170](b) It is reasonable to anticipate that if the Federal Trade Commission in its pending action against Xerox is ultimately successful in securing injunctive relief against the acts and practices of Xerox, the enforcement of such relief, after Xerox has exhausted all of its rights of appeal, is many years distant, even if those proceedings are expeditiously pursued."
>
> "[170](c) Xerox's chief executive officer has characterized those Commission proceedings as a 'nuisance.' He has promised that Xerox 'will fight every aspect' of the case and that it is determined in the Commission proceedings to prove the lawfulness of all of its acts and practices, not only in defense of itself but in defense of the American patent system. He said that Xerox is not 'changing anything' about the way it does business because of the Commission's allegations. Moreover, Xerox contends in its Answer that the Commission's claims of monopolization are not cognizable under Section 5(a) of the Federal Trade Commission Act, the provision of law which the Commission alleges Xerox has violated. Another Xerox official has stated that 'We do not believe the Federal Trade Commission is the appropriate forum for the resolution of the problems of multinational corporations.'"

In addition, a number of paragraphs refer to the FTC proceeding by quoting from Xerox' Answer to the FTC complaint:

> "34. At all times since 1960, Xerox's market position has been a consequence of its patents and technical knowhow.
>
> (a) As expressly admitted by Xerox in its Answer to the complaint against it by the Federal Trade Commission, a primary factor contributing to its present market position is 'patents issued by the United States Government'.

> (b) The ability of Rank-Xerox (more fully described below) since 1962 to manufacture and sell xerographic copying equipment, as Xerox also admitted in that Answer, 'has at all times been and continues to be attributable to the patents and technical know-how contributed by Xerox.' Xerox's own ability to manufacture and sell such equipment has at all times been and continues to be attributable to the same factors."
>
> "48. In 1973, Xerox's present annual spending for xerographic research and development, as Xerox has stated in its Answer to the complaint of the Federal Trade Commission, amounts to 'hundreds of millions of dollars.'"

Further, there are direct quotations from Xerox' Answer to the FTC complaint which do not make express reference thereto. These paragraphs are:

> "42. . . . the acts and practices of Xerox . . . include: . . . (b) its constant expansion of research and development activities in the field of xerography carried on internally and by others pursuant to exclusive agreements, to the point where, as it stated in 1973, Xerox presently 'continues to spend hundreds of millions of dollars for research and development on xerography.'"
>
> "77. As Xerox itself stated in 1973, the ability to manufacture and sell its xerographic equipment has at all times been and continues to be attributable to its patents and technical know-how; and that a primary factor to which it owes its present market position is 'patents issued by the United States Government.'"
>
> "137. Rank-Xerox's ability to manufacture and sell xerographic equipment, as Xerox asserted in 1973, 'has at all times been and continues to be attributable to the patents and technological know-how contributed by Xerox.'"

Each of the above paragraphs represents an effort to inject into the case the irrelevant, immaterial and prejudicial circumstance that the Federal Trade Commission has filed suit against Xerox. All such references should be stricken from the complaint because (1) the proceeding by the Federal Trade Commission does not qualify under Section 5(a) of the Clayton Act, 15 U.S.C.A. § 16(a) (1973) as a "final judgment or decree . . . rendered in . . . [a] proceeding brought by . . . the United States under the antitrust laws . . . [which] shall be prima facie evidence. . . ."; and (2) it is not otherwise relevant or material and is plainly prejudicial.

1. Section 5(a) of the Clayton Act Provides No Basis for Pleading The FTC Action

Efforts by private plaintiffs to plead the existence of government antitrust suits against the defendant typically arise in connection with Section 5(a) of the Clayton Act, 15 U.S.C.A. § 16(a), which provides that:

> "A final judgment or decree . . . rendered in any civil or criminal proceeding brought by or on behalf of the United States under the antitrust laws to the effect that a defendant has violated said laws shall be prima facie evidence against such defendant in any action or proceeding brought by any other party against such defendant under said laws . . . as to all matters respecting which said judgment or decree would be an estoppel as between the parties thereto . . . ." (emphasis supplied).

The FTC proceeding referred to by plaintiff in the Complaint does not come within the statute. Section 5(a) is expressly limited to "a final judgment or decree." Here, of course, there is no such thing since the FTC proceeding is still pending. See Duluth Theatre Corp. v. Paramount Pictures, Inc., 72 F. Supp. 625 (D. Minn. 1947), in which a reference to a ruling in a government antitrust suit was stricken because "No rights under the Clayton Act . . . can be based on a mere decision in an anti-trust suit which is not the final judgment therein." (72 F. Supp. at 625). SCM cannot even point to "a mere decision" by the FTC, since there has been no substantive ruling as yet of any kind in the Commission proceeding.*

The mere existence of an FTC complaint under Section 5 of the Federal Trade Commission Act does not qualify under Section 5(a) of the Clayton Act, a statute which is simply irrelevant to this case.

*In addition, the Federal Trade Commission Act, under which the FTC is proceeding against Xerox, is not one of the antitrust laws within the meaning of Section 5(a), and for that reason as well, Section 5(a) is inapplicable. See Y&Y Popcorn Supply Co. v. ABC Vending Corp., 263 F. Supp. 709 (E.D. Pa. 1967).

2. The References To The FTC Proceeding Are Not Otherwise Relevant Or Material And Are Highly Prejudicial

In the absence of any statutory basis of relevance or materiality, the cases dictate that the references to the FTC proceeding be stricken. Thus, in International Shoe Machinery Corp. v. United Shoe Machinery Corp., 315 F.2d 449 (1st Cir. 1963), the Court of Appeals held first that a prior final judgment in a government antitrust suit did not qualify under Section 5(a) of the Clayton Act because of different circumstances relating to the later period involved in the pending private action from that at issue in the prior case. Then, on the question of whether the same references to the government case were admissible at trial on grounds of relevance as background, the court excluded them because of their "great emotive impact" (315 F.2d at 459) and because "[a]bsent the mantle of Section 5, if a plaintiff has the independent evidence to demonstrate antitrust violation and injury . . . then it would seem that he would not have to resort to a judgment obtained in a prior proceeding as 'background.'" (315 F.2d at 459).

Similarly, references to government criminal actions culminating in pleas of nolo contendere (which do not qualify under Section 5(a) because they are akin to consent judgments) are routinely stricken as irrelevant, immaterial and prejudicial. Minnesota v. United States Steel Corp., 44 F.R.D. 559, 583-84 (D. Minn. 1968); N. W. Electric Power Cooperative,

Inc. v. General Electric Co., 30 F.R.D. 557 (W.D. Mo. 1961). As the District Court stated in the United States Steel case:

> "Against the objection that the court is ruling now and in advance on the admissibility of evidence suffice it to say that this matter is sufficiently prejudicial to defendants as to require this action now." (44 F.R.D. at 583).

The descriptions of the FTC investigation and complaint in SCM's Complaint (paras. 103, 116) are simply irrelevant here and, in light of their plainly prejudicial nature, should, as the authorities dictate, be stricken.

The Complaint's quotations from, and references to statements in, Xerox' Answer in the FTC case (paras. 170(b) and (c), 34(a) and (b), 48, 42(b), 77, 137) also serve no valid purpose insofar as they implicitly or explicitly refer to the FTC proceeding. If the substance of these paragraphs may properly be pleaded (and, as we have shown, supra, they are evidentiary in nature and should be stricken on that ground), then a simple and direct allegation of the point is all that is required or permitted. Express or veiled references to the FTC suit should be stricken. As the court held in Sam S. Goldstein Industries, Inc. v. Botany Industries, Inc., 301 F. Supp. 728 (S.D.N.Y. 1969), where defendants sought to strike reference to an FTC order:

> "Plaintiff has also alleged within this count that defendant violated a Federal Trade Commission order which prohibited defendant from selling its luggage with certain price information thereupon. Apparently, this order was directed at a course of fictitious pricing engaged in by defendant. However, the violation of this order has no apparent relevance to the Robinson-Patman Act claim; and this allegation should not be retained in the complaint. If the same facts which allegedly violate the F.T.C. order are deemed material to establish the Robinson-Patman Act claim, only the facts need and should be alleged." (301 F. Supp. at 736) (emphasis added).

In sum, the FTC proceeding does not fall within Section 5(a) of the Clayton Act; it is not otherwise relevant, as background evidence or otherwise;* and the references to it in the Complaint are highly prejudicial. They should, accordingly, be stricken.

II.

THE ALLEGATIONS OF THE THIRD CLAIM WHICH REFER TO "REASONS ALLEGED" IN SIX OTHER CASES SHOULD BE MADE MORE DEFINITE

In asserting the invalidity, unenforceability and fraudulent procurement of Xerox' Middleton-Reynolds patent, plaintiff makes the following allegation:

---

*Even if the FTC proceeding were somehow admissible in evidence here, references thereto in the complaint should still be stricken as prejudicial since, as pointed out supra, evidentiary detail may not properly be pleaded. See also Independent Theatres, Inc. v. American Broadcasting-Paramount Theatres, Inc., 179 F. Supp. 489-490 (S.D.N.Y. 1959).

> "176. The Middleton-Reynolds '006 patent is invalid and unenforceable, and was procured by fraud and has been enforced in violation of the patent and antitrust laws:
>
> (a) for each of the reasons alleged by Dennison Manufacturing Co., Nashua Corporation, Saxon Business Products, Inc., Litton Industries, Inc., Litton Business Systems, Inc., and Litton Systems, Inc. in their various presently pending litigations with Xerox (Xerox Corp. v. Dennison Manufacturing Co., 67 Civ. 3302 in the Southern District of New York; Xerox Corp. v. Nashua Corp., 69 Civ. 546 in the same court; Xerox Corp. v. Saxon Business Products, Inc., 71 Civ. 2630 in the same court; and Xerox Corp. v. Litton Industries, Inc., Litton Systems, Inc. v. Xerox Corp. and Litton Business Systems, Inc. v. Xerox Corp., all commenced in 1972, Civil Nos. 15,705, 15,136 and 15,137 in the District of Connecticut)."

The incorporation of "each of the reasons alleged" in support of these conclusions in the six other cases named is hopelessly inconsistent with Rule 8's requirement that a complaint set forth "a short and plain statement of the claim showing that the pleader is entitled to relief . . ." in the form of "simple, concise and direct" averments. Such a pleading is plainly, in the language of Rule 12(e), "so vague or ambiguous that [Xerox] cannot reasonably be required to frame a responsive pleading...." Consequently, Xerox is entitled to a more definite statement.

While Rule 10(c)* permits reference to pleadings

*"Statements in a pleading may be adopted by reference in a different part of the same pleading or in another pleading . . . ." (Fed. R. Civ. P. 10(c)).

on file in the same action in certain circumstances, pleadings in other actions may not be so incorporated. Thus, in Texas Water Supply Corp. v. Reconstruction Finance Corp., 204 F.2d 190 (5th Cir. 1953), a counterclaim incorporating factual allegations previously pleaded in another action was held barred by the statute of limitations because the incorporation by reference "did not sufficiently set forth the counterclaim . . . ." (204 F.2d at 196). The Fifth Circuit held:

> "Rule 10(c), Federal Rules of Civil Procedure, permits references to pleadings and exhibits in the same case, but there is no rule permitting the adoption of a cross-claim in a separate action in a different court by mere reference. The 'notice' theory of pleading cannot strike from Rule 8(a), Federal Rules of Civil Procedure, the plain and definite requirement that 'A pleading which sets forth a claim for relief, whether an original claim, counterclaim, cross-claim, or third-party claim, shall contain * * * a short and plain statement of the claim showing that the pleader is entitled to relief * * *.' (Emphasis ours.) The mere reference in this case to the other action did not so show." (204 F.2d at 196-197).

Moreover, SCM here goes far beyond simple reference to other pleadings; it makes the impossibly vague reference to "each of the reasons alleged" by six parties in six litigations, incorporating pre-trial orders and other documents in which such contentions might be made. Much clearer references have been held insufficient. For example, in Heintz & Co. v. Provident Tradesmen's Bank & Trust Co.,

29 F.R.D. 144, 145 (E.D. Pa. 1961), incorporation by reference of certain paragraphs and exhibits from the original complaint into a third-party complaint in the same action was held violative of Fed. R. Civ. P. 8 because the "reference . . . to certain paragraphs of the original complaint [did not indicate] to what extent the allegations of the original complaint were being adopted and incorporated by reference."

Paragraph 176(a) of the SCM complaint thus fails on at least two grounds. It not only violates the precept against reference to pleadings in other cases -- magnified six times -- but attempts to adopt all of "the reasons alleged" in the six cases in support of invalidity, unenforceability and fraud in pleadings, pre-trial orders and whatever other nameless documents may contain such "reasons." It is indeed ironic that, while taking 42 prolix pages to state their antitrust claim, SCM errs so flagrantly in the other direction by not taking the trouble to state the basis of its patent claim at all.

CONCLUSION

For the foregoing reasons, Xerox respectfully requests that the First and Second Claims of the Complaint and the portion of the Third Claim predicated on the First be stricken with leave to refile without reference to the FTC proceeding and evidentiary detail, and that SCM be directed to provide a more definite statement of the vague and ambiguous portion of the Third Claim.

Dated: September 14, 1973

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UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF CONNECTICUT

- - - - - - - - - - - - - - - - - - - x

SCM CORPORATION, :

Plaintiff, :

-against- :

XEROX CORPORATION, : Civ. No. 15807

Defendant. :

- - - - - - - - - - - - - - - - - - - x

SCM'S MEMORANDUM IN OPPOSITION TO DEFENDANT'S MOTION TO STRIKE

First, we consider general principles and related matters which compel denial of Xerox's motion to strike the First and Second Claims. In effect, Xerox seeks an order which would require SCM to replead its First and Second Claims in general and conclusory terms so that it will be easier for Xerox to deny such allegations generally, and so that Xerox may avoid pleading to and admitting many of the allegedly objectionable specific allegations.

Second, we advance additional reasons for the denial of Xerox's motion to strike allegations in the First and Second Claims which make reference to highly material admissions or averments by Xerox in its answer to the complaint of the Federal Trade Commission, statements by Xerox concerning

the Commission proceedings or reference to those proceedings.

Third, we show that Xerox's motion for a more definite statement concerning the allegations contained in subparagraph 176(a) of the Third Claim should be denied.

No useful purpose would be served by any attempt in this memorandum to repeat or summarize the approximately 50 paragraphs or subparagraphs of the First and Second Claims which Xerox contends are objectionable (Xerox's Memorandum in support of its motion, pp. 4, 5, 9-11), since the Court has the opportunity to review the complaint in whole and all of its parts. Therefore, reference in this memorandum to specific allegations of the complaint will be as limited as possible; and to the extent necessary, attention can be focused on specific allegations during oral argument.

POINT I

XEROX'S MOTION UNDER RULE 12(f) TO STRIKE THE FIRST AND SECOND CLAIMS IN THEIR ENTIRETY SHOULD BE DENIED.

Xerox contends (Xerox's Memorandum, p. 4) that SCM's first two claims should be stricken under Rule 12(f) because they allegedly fail to comply with Rule 8(a). Rule 12(f) provides that on motion timely made by a party, or on the court's own initiative at any time, "the court may order stricken from any pleading any insufficient defense or any redundant, immaterial, impertinent, or scandalous matter."

Yet, apart from its contentions concerning statements

made in or about the Commission proceedings with which we deal in Point II, Xerox does not contend that the First and Second Claims or any specific allegations in them should be stricken because allegedly "redundant, immaterial, impertinent, or scandalous". As a threshold matter, Xerox makes no contention that those claims are insufficient as a matter of law or that any of the allegedly objectionable allegations create any doubts on its part concerning sufficiency.

Instead, Xerox complains of the alleged "extraordinary length" of the complaint which it says has been achieved by the allegation of evidentiary detail including quotes from potential witnesses and documents, statistical data and specific facts relating to Xerox patents, revenues, profits, expenditures, equipment, and details of unaccepted license offers (Xerox's Memorandum, pp. 4-5).* Apart from the enormous value and usefulness

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* Even were Xerox's characterizations correct, the rules do not provide for the striking of evidential matter -- and certainly not for the striking of an entire claim because it contains some evidential matter -- and the cases, in fact, explicitly permit the pleading of evidence. See Sinaiko Bros. Coal & Oil Co. v. Ethyl Gasoline Corp., 2 F.R.D. 305 (S.D.N.Y. 1942), where evidentiary matter was not stricken because "its inclusion appears to give a fuller understanding of the complaint and is therefore not objectionable." See also Mitchell v. Hart, 41 F.R.D. 138 (S.D.N.Y. 1966) (the evidentiary facts provided "for a better understanding of the claim asserted"); Canadian Ingersoll-Rand Co. v. D. Loveman & Sons, Inc., 227 F.Supp. 829, 831 (N.D. Ohio 1964) (evidential matter assisted "in clarifying the dispute"); United States v. Crown Zellerbach Corp., 141 F.Supp. 118, 131 (N.D. Ill, 1956) (evidentiary matters relevant and "provide a background for an understanding of the charges").

which we discuss later in this Point of SCM's organized and specific allegations drawn from official Xerox sources, the contentions advanced by Xerox (even if well-taken, which they are not) would not under applicable general principles support the striking of SCM's first two Claims or any of its allegedly objectionable allegations.

A. Applicable General Principles.

In synthesis of scores of reported decisions, Professor Moore has succinctly expressed the basic ground rules concerning the limited and extraordinary situations when the court's discretion should be exercised to strike an allegation or pleading under Rule 12(f), and the liberality accorded the pleader to choose the manner of his own presentation. 2A Moore's Federal Practice at 2429-34 (1972). As he has stated:

> Motions to strike alleged redundant, immaterial, impertinent or scandalous matter are not favored. Matter will not be stricken from a pleading unless it is clear that it can have no possible bearing upon the subject matter of the litigation. If there is any doubt as to whether under any contingency the matter may raise an issue, the motion should be denied. Even if the allegations are redundant or immaterial, they need not be stricken if their presence in the pleading cannot prejudice the adverse party. (Id. at 2429-31)*

* See, e.g., Boerstler v. American Medical Association, 16 F.R.D. 437, 445 (N.D. Ill, 1954), which noted that while "gross violations" of Rule 8(a) have led some courts to

(cont.)

After quoting from a federal decision (Sinkbeil v. Suhr, 10 F.R.Serv. 12f. 21, Case 1 (D. Neb. 1946)) that "short of abuse or practical impropriety, a reasonable latitude should be allowed to a pleader" and that only immaterial matters which are calculated to be harmful should be stricken, Professor Moore goes on to state that:

> . . . where certain evidential facts, when read with the complaint as a whole, give a full understanding thereof, they need not be stricken. In suits involving multiple and complex issues greater latitude in pleading may be allowed since the impertinence may not be so clear. (Id. at 2433).*

In considering the interrelationship of Rule 12 with Rule 8(a)(2) (on which Xerox relies), Professor Moore has stated that even where a pleading is prolix, "there is no necessity for

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(fn. cont'd)

strike entire claims, even a "prolix" pleading containing "evidence or immaterial matter" will not be stricken "absent a showing of prejudice"; Sunbeam Corp. v. Payless Drug Stores, 113 F.Supp. 31 (N.D. Cal. 1953).

* Professor Moore also points out that: "At times the court may properly defer action on the motion until the trial." (Id. at 2434) "A motion to strike, like any other motion, must state with particularity the grounds therefor." (Ibid.)

the court to draw fine distinctions between 'ultimate facts' and 'evidentiary facts', and the pleading of evidence will often be tolerated if it aids in the presentation of a case or is harmless." (Id. at 1701-1702)

The opinion by Judge (now Circuit Judge) Feinberg in Atlantic City Electric Co. v. General Electric Co., 207 F.Supp. 620 (S.D.N.Y. 1962) is most helpful in its exposition of applicable general principles. After discussing a number of decisions and authorities (including portions of Professor Moore's treatise described above, and the Nagler decision on which Xerox relies) (where, as Judge Feinberg said, the issue was whether the pleader had "pled too little", not whether "as here, too much") Judge Feinberg summed up as follows:

> These cases and modern notions of the pleading process in "big" cases express a useful approach: little is accomplished from attempting to prune complaints at this stage; they should be left intact unless matter is alleged whose materiality is highly unlikely. If such matter is alleged, then the Court may strike it, in its discretion, depending upon its assessment of other factors, including, possible prejudice, elements of unfairness and threat of delay.
> (Id. at 624.)

Judge Feinberg also referred, among other things, to the 1955 Report of the Attorney General's National Committee to Study the Antitrust Laws, which has direct pertinence to Xerox's present motion. The Committee considered that in antitrust cases it was not merely desirable but necessary "to require a plaintiff to state its charges in full and with adequate particularity" including by use of the vehicle of liberal granting of motions for a more definite statement under Rule 12(e). (Ordinarily, as with motions to strike, motions for a more definite statement are disfavored and as we point out in Point III, should be granted only where it is necessary to enable a defendant to respond even generally.) The Committee considered that specificity and particularity in antitrust cases are desirable if not necessary because a "prime problem is the lack of sufficient particularity of the issues to be tried"; and because where issues have not been carefully defined, under the Federal Rules there is "no effective limit upon the scope of discovery and, as a result, courts are turned into investigating agencies." The Committee also considered that factors contributing to this problem included "liberality in modern pleading practice" and "the reluctance of trial courts to resolve disputed issues of law in advance of trial, to compel the parties to reduce broad issues to those genuinely in dispute and to require that these issues be stated with particularity." (Id. at pp. 362 et seq.)

Although in most cases the liberal notice pleading provisions of the Federal Rules do not require a plaintiff to allege his claim with particularity, the interrelated provisions of Rule 9(b) are also instructive. That rule provides that when fraud or mistake is alleged, "the circumstances constituting fraud or mistake shall be stated with particularity." As Judge Moore said recently in Segal v. Gordon, 467 F.2d 602, 607 (2d Cir. 1972), Rule 9(b)'s specificity requirement stems not only from the desire to minimize the number of strike suits,

> "but also more particularly from the desire to protect defendants . . . when they are charged with serious wrongdoing"

because, as he said,

> "It is a serious matter to charge a person with fraud and hence no one is permitted to do so unless he is in a position and is willing to put himself on record as to what the alleged fraud consists of specifically."

Although the rules do not require specificity with respect to an antitrust charge (as here, under Sections 1 and 2 of the Sherman Act which are both civil and criminal violations), certainly Xerox cannot complain when SCM has put itself on record as to what the alleged antitrust violations consist of specifically, and afforded Xerox even greater notice of the matters which it must defend.

The Court of Appeals for the Fifth Circuit has also expressed as concretely as possible applicable general principles in its decision in Atwood v. Humble Oil & Refining Co., 243 F.2d 855 (5th Cir. 1957), cert. denied, 355 U.S. 829 (1957). There the District Court had dismissed the complaint as "complex and prolix". The complaint as set forth in the Record on Appeal was made up of 46 pages plus an additional 74 pages of exhibits. The Court of Appeals unanimously reversed, stressing the importance of giving the plaintiff wide latitude to present its claim as it in good faith chooses. The court stated:

> "Brevity is certainly desirable in order that the time of court and counsel may be conserved and the cost of printing minimized. But such considerations do not rank in importance with the right and the duty of a litigant to present his demands through counsel of his own choosing and in a style and form of expression which represent the attorney's honest effort to present the claims according to his own notions of their merits and their strong and weak points. In the mechanics of getting his client's claim before the court, the attorney is allowed a wide latitude, and the claim is 'whatever the plaintiff in good faith declares it to be;' and in the functioning of the judicial process, the role of the advocate ranks in dignity and importance with that of the judge." (Id. at 888)

The court held that it was satisfied regarding the content and purpose of each allegation, that what is a "short and plain statement" "depends upon the circumstances of the case," and that a "careful reading of the complaint reveals, however, that plaintiffs had charted in detail the course they expect to follow in the prosecution of the various claims alleged." (Id. at 887, 889) We think that on examination of SCM's complaint, this Court will reach the same conclusion.

B. The Constructive Consequences of SCM's Specificity and Particularity.

At bottom, the apparent purpose of Xerox's motion is to require SCM to replead its First and Second Claims in a manner which Xerox would presently prefer along the lines of the Litton complaints filed in this Court in 1972 consisting of brief, general, conclusory allegations. Xerox can then simply deny generally all of those material operative allegations as it did in those cases.

Because drawn from official Xerox sources (including annual reports, registration statements, recorded speeches or statements by the most senior Xerox officials on its behalf and other published statements), Xerox seeks to avoid the necessity of pleading to those allegations and admitting many of them or substantial portions of them. Xerox's motion seems to reflect an attempt to make an important case bigger, more complex and amorphous, rather than making an important case smaller and simpler in its litigation dimensions for the parties and for the Court.

The pleading by SCM of the complaint in its present form and the pleading of an answer by Xerox which is responsive to it, has many constructive consequences. To the extent that matters are admitted, pleading admissions ultimately serve as evidence. They serve to eliminate or reduce the scope of

pretrial discovery and devices such as interrogatories, document demands, depositions and requests for admission on the subjects involved. For example, if paragraph 26 or substantial portions of it is admitted, the need for further pretrial discovery, as to the subject matter involved is circumscribed and limited. We make reference to this single example and a few others, recognizing the possible danger that it might be contended that we have selected particular examples, and omitted others, because the selected examples best illustrate our point. However, we are prepared at oral argument or in any further writing if the Court desires, to point out precisely the materiality and usefulness of each and every allegation to which Xerox objects.

Pleading admissions serve further as a tool in the Court's determination of disputes concerning particular items of discovery sought by one party or the other. Indeed, pleading denials by Xerox of specific allegations by SCM serve to focus on the areas of dispute and the extent to which further discovery is or is not appropriate. Thus, any objections which Xerox may advance to SCM's interrogatories and document requests, or conversely, by SCM to Xerox's document requests or interrogatories, can be more easily and precisely adjudicated.

In the end, the specificity and particularity of SCM's complaint and Xerox's pleading to that complaint, will

aid in delineating the genuine areas of undisputed and disputed fact, and will aid and substantially accelerate the ability of the Court to define and adjudicate the legal issues arising from the facts.

We think that SCM's complaint is entirely in accord with Professor Handler's plea in 1951 that in order to avoid the expensive and unfair burdens to defendants (and we would add plaintiffs) of protracted antitrust litigation, such cases should not be "overtried" and that "maximum ingenuity [should] be exercised in simplifying the charges." "New Frontiers and Complexities" (1951), reprinted in Handler, Twenty-Five Years of Antitrust, at 159 (1973).

Although, as we have shown, evidentiary matters presented in an organized fashion which aid in a presentation of the charges and amplification of issues will not be stricken and are desirable, much of what Xerox objects to as allegedly evidentiary statements is not evidentiary at all. For example, many of the words expressed publicly by the most senior Xerox officials on Xerox's behalf are themselves operative facts, such as those contained in paragraphs 33(a)(b) and (c) to which Xerox objects. Among other things, they constituted communications to others who might be interested in attempting to develop plain paper copiers that Xerox considered that it

had a patent lock on the technology involved; and that anyone in considering the manufacturing and marketing of plain paper office copier equipment must be wary of patent infringement claims by Xerox. They also show the operative fact of Xerox's recognition that by virtue of those patents, Xerox at the times involved possessed monopoly power over the skill and technology of xerography and plain paper office copying. Moreover, as SCM has alleged in paragraph 92, both the "words and deeds" of Xerox have operative,meaningful effect.

The words and conversations alleged in paragraphs 85 through 88, including those in paragraphs 87 and 88 to which Xerox objects (concerning the "strange places" where enforceable claims in Xerox patents may be located), also constitute allegations of operative facts - namely the making of the statements as an implied threat and Xerox's conscious recognition in 1963 (when it owned about 250 xerographic patents) of the existence of a "patent thicket." To use only one further example, Xerox objects to paragraph 121 (which in turn refers to paragraph 42(i)) where Xerox's very act in asserting the words involved is an operative fact.

To the extent that SCM's complaint precisely alleges or quotes words expressed by Xerox or by high officials on its behalf where the acts in expressing those words are not themselves operative facts, Xerox hardly can complain about such specificity.

Such allegations only give greater notice of the nature, substance and basis of SCM's allegations and enhance the ability of Xerox to plead specifically. For example, paragraph 12, the first paragraph to which Xerox objects, alleges highly material facts concerning market definition and the limited extent of competition in the words of Xerox's own present chief executive officer. That allegation, as well as the others like it, could have been made without the precision of quotation marks, and without reference to who made them. But as pleaded, Xerox has greater notice concerning both the substance of SCM's charge and what SCM considers to be an unimpeachable basis for that charge. Xerox is on notice at the outset of the litigation of the important defensive problem it faces if it seeks to rebut that allegation.

With respect to all of the 50 paragraphs or subparagraphs to which Xerox objects, Xerox seeks to eliminate from the complaint many of the factual building blocks on which SCM 's alleged ultimate legal conclusions are based. Striking any of those allegations can serve only a destructive, not constructive purpose.

SCM's position on this motion is much like the stance asserted by Xerox in its motion for a more definite statement with respect to the complaint of the Federal Trade Commission, a copy of which will be handed up at oral argument.

Xerox elected to generally deny the general conclusory operative allegations of the Litton complaint without further ado. However, in its memorandum in support of its motion for a more definite statement with respect to the subsequent and more specific allegations of the Federal Trade Commission complaint (a copy of which will also be handed up to the Court at oral argument), Xerox complained that specified allegations in that complaint "are obscure conclusions, rather than clear factual statements sufficient to inform Xerox with reasonable definiteness of the type of conduct being challenged" (pp. 2-3). Xerox asserted the need for greater specificity with respect to a number of the Commission's allegations, including those that Xerox has been engaged "in developing and maintaining a patent structure of great size complexity and obscurity of boundaries" (Id. at p. 13).* SCM has here provided such specificity, but Xerox now objects.

Moreover, soon after joinder of issue on the pleadings, and in aid of Xerox's plea for greater specificity by the Commission Staff so that Xerox would be better able to prepare its defense, Xerox's motions were granted requiring the Staff to identify the types of facts it intends to prove and for identification of documents the Staff preliminarily intends to use.

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*Although as a formal matter Xerox's motion was denied, as a practical matter Xerox obtained substantial further specificity provided in the Staff's answering memorandum to that motion.

In short, Xerox's motion here is nothing more than a tactic or stratagem - a "double reverse" - to make these proceedings substantially more protracted, complex and amorphous, and more burdensome to SCM. At the very outset of this case, Xerox is attempting to impair SCM's legitimate attempt at the pleading stage to simplify as much as possible, and to secure expeditious completion of discovery and adjudication of the legal issues raised by its First Claim.

POINT II

THE ALLEGATIONS CONCERNING MATTERS ASSERTED OR INVOLVED IN, OR RELATING TO THE COMMISSION PROCEEDINGS, SHOULD NOT BE STRICKEN.

Xerox argues that eight specific paragraphs containing matters asserted or involved in, or relating to the Commission's proceeding against Xerox be stricken because allegedly prejudicial and without relevance. Xerox first sets up a straw man that Section 5(a) of the Clayton Act provides no basis for the allegedly objectionable allegations. But it is a contention which is wholly irrelevant to the issues of the propriety of those allegations and whether they should be stricken. There is simply no claim in the complaint, and we make none, that the pendency of the Commission proceedings, the averments by Xerox in its Answer, the statements by senior Xerox officials concerning that proceeding and the other related matters, constituted any "final judgment" and have any Clayton Act, §5(a) effect.

Xerox then misrelies on the decision by the First Circuit in International Shoe Machinery Corp. v. United Shoe Machinery Corp., 315 F.2d 449 (1963). If that decision expresses the law of this Circuit (which is extremely doubtful under Gottesman v. General Motors Corp., 414 F.2d 956,

962-963 (1969), cert. denied 403 U.S. 911), it and the other cases cited by Xerox are not pertinent here since the allegations stricken in those cases were irrelevant or only marginally relevant as "background" and were potentially prejudicial as actual adjudications of prior wrongdoing.

The allegations contained in the eight allegedly objectionable paragraphs of SCM's complaint do not fit into any of those categories and are hardly "background", as alleged and in the context of their surrounding allegations. Thus, paragraphs 103 and 116 immediately precede, respectively, the allegations concerning the license offers made by Xerox in 1970 and 1973. They bear on the question of whether the commencement of the Commission investigation in 1969 and the filing of the proposed complaint and complaint in late 1972 and early 1973 constituted the reason or one of the reasons prompting Xerox to make those offers. They bear on the issue of whether those license offers were "illusory" and the ultimate antitrust charges made by SCM because they may relate in part or in whole to Xerox's intent and the bona fides or mala fides of Xerox in making those offers. In any event, as Judge Kirkpatrick held in one of the electrical equipment cases, reference by a private party to the pendency of a civil action by the government against the defendants in the pleading cannot "possibly prejudice anybody". City of Philadelphia v. Westinghouse Electric Corp., CCH 1961 Trade Cases ¶70,143 (E.D. Pa. 1961).

If at a subsequent juncture of the proceedings Xerox were able to demonstrate the unquestionable immateriality and prejudice of those allegations, it would be sufficient to strike them at that time. As Judge Feinberg held in Atlantic City Electric Co. v. General Electric Co., 207 F.Supp. 620, 629 (S.D.N.Y. 1962), where allegations concerning the pendency of government civil injunctive proceedings may have materiality (there to a statute of limitations question), they will not be stricken.

As is plain, the allegations contained in paragraphs 170(b) and 170(c) to which Xerox objects (Memorandum, p. 10) advance additional reasons for the expeditious adjudication and granting of the equitable preliminary and permanent injunctive relief which SCM seeks in this action; SCM's standing to seek that injunctive relief under the standards laid down in Gulf & Western Industries, Inc. v. The Great Atlantic & Pacific Tea Co., Inc., 476 F.2d 687, 693 (2d Cir. 1973); and for proceeding to adjudicate SCM's First Claim as expeditiously as possible. For, in the long run, if, as SCM alleges and intends to prove, any effective enforceable Commission decree (assuming Xerox's jurisdictional objections are rejected) is at best long distant, the mere passage of a protracted period of time before an adjudication of SCM's allegations in its First Claim may deprive SCM of the relief to which SCM is entitled, even though such an ultimate adjudication were

favorable to it. In short, solely through delays in time in this case, and the other matters alleged in paragraphs 170(b) and 170(c), Xerox might defeat as a practical matter, the lawful opportunities of SCM to compete in the manufacture or marketing of plain paper office copiers.

With respect to paragraphs 34, 42, 48, 77 and 137 to which Xerox objects (Memorandum, pp. 10-11) which contain averments (which SCM contends are pertinent admissions) of highly material facts, it is unquestionable that assertions by a party in a pleading in another case, which are determined to be admissions against interest, are admissible. That principle is, as expressed in Ross v. Philip Morris & Co., 328 F.2d 3, 15 (8th Cir. 1964), that

> ". . .an admission in a pleading in one action may be received in evidence against the pleader in another action to which he is a party, in favor of a party to the latter action, provided the admission is relevant and material to the issues being litigated."

See also 4 Wigmore, Evidence; § 1066, p.74 et seq. (Chadbourn rev. 1972); McCormack on Evidence, p.635 (2d ed. 1972). Certainly, the allegations made in paragraphs 34, 42, 48, 77 and 137 are highly material and relevant to the issues in this case. At least SCM should be permitted to contend at this pleading juncture that such allegations are material.

Attribution of the source of those allegations produces neither prejudice nor immateriality.

SCM's views concerning the enormous importance and materiality of the allegations concerning Xerox's patents contained in paragraphs 34(a), 34(b), 77 and 137 should be briefly elaborated. SCM alleges among other things, that as Xerox has admitted in its Answer to the Commission's complaint, "a primary factor contributing to [Xerox's] present market position is 'patents issued by the United States Government'".

Under § 154 of the Patent Act (35 U.S.C. § 154) a patentee is granted a negative right for the life of the patent "to exclude others from making, using or selling the invention [covered by the patent] throughout the United States" for the term of the patent. Thus, if as Xerox itself admitted, a primary factor contributing to its present market position (which is unquestionably substantial however broadly Xerox attempts to define relevant market or "part of commerce") is patents issued by the United States Government, it has conceded that such market position has been materially produced by its possession and use of the anticompetitive power to restrain or exclude others from using, making or selling the inventions described in its numerous xerographic patents.

The issue of the lawfulness of Xerox's acquisitions and practices in connection with those patents under Clayton Act § 7 and §§ 1 and 2 of the Sherman Act is thus reached directly whether the market or part of commerce is defined as the skill and technology of xerography, or the manufacture or marketing of plain paper office copies or more broadly than that.

Under § 261 of the Patent Act (35 U.S.C. 261), subject to the provisions of the Patent Act "patents shall have the attributes of personal property." Patents have been construed to be "assets" within the terms of Clayton Act §7 and any contracts by which the ownership or use of patents has been acquired are subject to the tests of §§ 1 and 2 of the Sherman Act. (See the decisions cited in the 1955 Attorney General's Committee Report, p. 227, fn 21; and the 1968 supplement to that Report, Antitrust Developments 1955-1968, p. 169 and the pocket part thereto covering further antitrust developments to 1971, p. 52.)

Indeed, solely on the basis of the admissions made by Xerox in its Answer to the Commission's complaint (as alleged in these paragraphs of SCM's complaint), and Xerox's predictable view that on its definition of market it possesses approximately a 30% share (despite SCM's disagreement as to market definition and market share), SCM will contend that at

minimum Xerox's patent acquisitions and patent practices by agreement, here and abroad, constitute at minimum violations of Clayton Act § 7 and § 1 of the Sherman Act as a matter of law.

Xerox's motion to strike the eight paragraphs involved should therefore be denied for all of the foregoing reasons. Of course, the Court or jury will ultimately determine whether SCM's factual and legal contentions are sound but there exists no reason to strike the pleading allegations involved at this juncture. In any event, since all of the matters which are alleged constitute public information, even if at some future juncture in these proceedings Xerox were to establish conclusively the soundness of its contentions as to some or all of the allegations involved, it would be sufficient to deal with such matters at that time. Xerox should plead to those allegations so that a determination can be made as to what is or is not undisputed or disputed, and the issues of fact and law can emerge with clarity at this time. Moreover, the attribution of the source of those allegations does not prejudice Xerox and as in many other instances can only serve to advance the case.

POINT III

THE ALLEGATIONS CONTAINED IN SUBPARAGRAPH 176(a) DO NOT REQUIRE A MORE DEFINITE STATEMENT.

As Professor Moore has stated:

> ". . .Rule 12(e) states clearly that a motion for a more definite statement is proper only 'if a pleading to which a responsive pleading is permitted is so vague or ambiguous that a party cannot reasonably be required to frame a responsive pleading.'"

(2A Moore's Federal Practice, at 2387.)

Paragraph 176(a) which Xerox challenges is not "so vague or ambiguous that a party cannot reasonably be required to frame a responsive pleading". In view of the continuing pendency of those other patent litigations concerning the Middleton-Reynolds '006 patent which Xerox contends in those actions are valid and enforceable in all respects, Xerox can simply deny the allegations of paragraph 176(a). If it desires, it can go on to generally aver such validity and enforceability for the reasons alleged by it in those litigations. Certainly Xerox knows the reasons alleged by its adversaries in pleadings or pretrial orders for the invalidity or unenforceability of that patent. It would exalt form over substance to require a summarization by SCM of all of those reasons to further extend

the length of SCM's pleading on a claim whose adjudication, and any proceedings with respect to it, plainly should be deferred until the conclusion of one or more of those other litigations.

Moreover, under the Nagler decision, on which Xerox has relied with respect to its contentions as to SCM's first two claims, Xerox has been given sufficient general notice at the pleading stage of SCM's claims concerning that patent, not only in subparagraph 176(a) but also in subparagraphs 176(b) and (c).

The propriety, indeed the desirability of the manner in which SCM has pleaded subparagraph 176(a) is a natural procedural consequence of the Supreme Court's decision in Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313 (1971). In that case, the Court held, in partially overruling one of its prior decisions, that a patentee is collaterally estopped from asserting the validity and enforceability of its patent against anyone else if an adverse determination has been made in a prior proceeding where the patentee had the opportunity to fully litigate the questions involved.

Blonder-Tongue reached its substantive ruling after careful consideration of many factors, including the proper allocation or misallocation of the resources of litigants in patent proceedings (402 U.S. at 329). As applied here procedurally, if any of the pending and advanced* patent litigations concerning the patent produces results adverse to Xerox, it would be an unnecessary misallocation of the resources of the parties here to do anything further on these issues until such determinations. In the event that in all of those other pending litigations Xerox fully vindicates its patent, it would be time enough to require SCM to specify through interrogatories or through the use of other flexible procedures available under the Federal Rules, which specific reasons, if any, SCM would then choose to pursue in further litigation with Xerox.

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*The Xerox-Dennison litigation concerning the patent is scheduled for trial sometime this fall before Judge Weinfeld in the Southern District of New York.

CONCLUSION

Xerox's motion should be denied in all respects.

Respectfully submitted,

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Dated: September 20, 1973

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DECISION ON DEFENDANT'S MOTION TO STRIKE

FILED
OCT 5 2 56 PM '73
U.S. DISTRICT COURT
NEW HAVEN, CONN.

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

SCM CORPORATION	:	
V.	:	CIVIL NO. 15,807
XEROX CORPORATION	:	

MEMORANDUM OF DECISION
ON DEFENDANT'S MOTION TO STRIKE

This is a motion by defendant Xerox Corporation attacking the complaint filed against it by plaintiff SCM Corporation. The complaint presents three claims. The first, seeking injunctive relief, and the second, seeking treble damages, allege violations of §§ 1 and 2 of the Sherman Act and § 7 of the Clayton Act in connection with defendant's manufacture and marketing of plain paper copiers. The third claim attacks the validity of Xerox's Middleton-Reynolds '006 patent and seeks treble damages for royalties paid by plaintiff pursuant to a 1968 license agreement with defendant pertaining to coated paper copiers; the patent is

attacked in part because of the acts alleged in the first claim and also because of fraudulent procurement.

Xerox moves pursuant to Fed. R. Civ. P. 12(f) to strike the first two claims and that portion of the third claim based on the first claim for their failure to comply with Fed. R. Civ. P. 8, in that they are unduly prolix and laden with evidentiary matter, and not a short and plain statement of the claim. The balance of the third claim is attacked pursuant to Fed. R. Civ. P. 12(e) as being too vague, in that the grounds of patent invalidity are alleged solely by reference to reasons set forth in pleadings in other cases, some of which are pending in the Southern District of New York. Xerox is thus complaining that the SCM complaint is at once too long and too short. In both respects Xerox is right.

The first and second claims are set forth in 170 paragraphs consuming 42 printed pages. While length alone does not indicate a violation of Rule 8, the content of this complaint far exceeds the fair bounds of federal pleading rules. Evidence is set forth in extraordinary detail, including fragmentary quotations from prospective witnesses and various documents, including press releases. An antitrust claim may well require more elaboration than a simple action

for debt or trover, but it is the claim that should be pleaded, not the details of the evidence that support the claim. Fact-pleading contemplates only essential facts, not the mass of evidence that allegedly justifies a finding of those essential facts. Johns-Manville Sales Corp. v. Chicago Title & Trust Co., 261 F.Supp. 905 (N.D. Ill. 1966); Metropolitan Theatre Co. v. Warner Bros. Pictures, Inc., 12 F.R.D. 516 (S.D. N.Y. 1952); United States ex rel. Holland v. Maroney, 299 F.Supp. 262, 263 (W.D. Pa. 1969).

In opposing the motion, SCM has candidly set forth its reason for such a detailed complaint. By alleging a multitude of facts that it believes can be readily documented and may well not be disputed, it hopes to obtain from defendant's answer admissions that will obviate the need for much discovery. But that process is available to plaintiff under the discovery rules which provide for the submission of requests to admit any relevant matters of fact. Fed. R. Civ. P. 36. The function of a complaint is simply to give notice of the claims, to frame the issues. There is nothing to prevent plaintiff from submitting nearly all the allegations of its present complaint as requests to admit, once it has complied with Rule 8's requirement of a "simple, concise, and direct pleading."

Of course, SCM need not and should not go to the other extreme of submitting conclusory allegations. Particularization of the claim is helpful, especially some specificity as to the pleader's theory of the antitrust violations. Reasonable latitude ought to be given so that the complaint will be a helpful document in the future course of the litigation. This complaint, in its present form, does not clarify, but actually obscures the nature of the claims amid the welter of evidence. Whatever chances it has of bearing fruit will be increased by thorough pruning at this early stage.

Xerox also complains of the inclusion in several paragraphs of references to a pending proceeding against it brought by the Federal Trade Commission. SCM justifies these references as material allegations of facts to show that license offers made by Xerox were illusory in that they were made only as a response to the FTC proceeding. Allegations concerning failure to offer licenses on reasonable terms will adequately frame the issue on this point. Whether the FTC action can be cited as the cause of "illusory" offers raises questions best dealt with on the admissibility of evidence.

With respect to SCM's allegation of invalidity of

the '006 patent "for each of the reasons alleged" in other actions pending in this District and in the Southern District of New York, a more definite statement is required. A complaint does not satisfy Rule 8 when it purports to incorporate by reference allegations in other lawsuits. See Texas Water Supply Corp. v. Reconstruction Finance Corp., 204 F.2d 190 (5th Cir. 1953).

SCM virtually concedes the inadequacy of the pleading, but contends that any clarification should await the outcome of the other suits in which the validity of the '006 patent is in issue. Whether the validity issue in this litigation should be stayed is a separate matter on which Xerox is entitled to be heard. An inadequate pleading that requires subsequent specification cannot be used as a device to accomplish the effect of a stay. SCM has elected to include in its lawsuit in this District a claim of patent invalidity. That claim must be properly pleaded. Whatever misallocation of resources is to be avoided by the doctrine of Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313 (1971), does not include the time required of a plaintiff to draft a proper complaint.

Accordingly, Xerox's motion to strike the first

and second claims of the complaint and so much of the third claim as relies on the first claim is granted, as is the Xerox motion for a more definite statement with respect to the balance of the third claim, without prejudice to the filing of a new complaint by SCM within thirty days.

Dated at New Haven, Connecticut, this 9 day of October, 1973.

Jon O. Newman
Jon O. Newman
United States District Judge

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PARTIAL ANSWERS AND RESPONSES TO CERTAIN OF PLAINTIFF'S INTERROGATORIES AND DOCUMENT REQUESTS

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,	:	
Plaintiff,	:	
-against-	:	Civ. No. 15807
XEROX CORPORATION,	:	
Defendant.	:	

DEFENDANT'S PARTIAL ANSWERS AND RESPONSES TO CERTAIN OF PLAINTIFF'S INTERROGATORIES AND DOCUMENT REQUESTS RESPECTING ITS FIRST CLAIM

Defendant, Xerox Corporation ("Xerox"), submits the following partial answers and responses to certain of "Plaintiff's Interrogatories and Document Requests Respecting its First Claim ('Plaintiff's Discovery Request')" in compliance with the letter agreement between counsel of September 18, 1973.

To the extent that certain pages of this document, or requested documents, or documents specified pursuant to Rule 33(c) of the Federal Rules of Civil Procedure, are produced and are labelled "confidential" by Xerox regardless of category, the letter agreement of confidentiality

between counsel dated September 26, 1973 shall govern their treatment.

In a separate document, entitled "Defendant's Response to Plaintiff's Interrogatories and Document Requests Respecting its First Claim," Xerox has stated its objections to various "Items"* of plaintiff's discovery request.

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*Plaintiff has adopted the term "Item" to refer to the specifications of its discovery request, and Xerox uses that term herein.

Partial Answers and Responses to Certain of Plaintiff's Interrogatories and Document Requests

Defendant's partial answers and responses are as follows:*

Item No. 3

Identify by model number:

(a) each plain paper office copier manufactured or marketed by Xerox at any time;

(b) each coated paper office copier manufactured or marketed by Xerox at any time;

(c) each other coated paper office copier manufactured or marketed by Xerox at any time;

(d) each duplicator manufactured or marketed by Xerox at any time; and

(e) each other copier and each other duplicator manufactured or marketed by Xerox at any time.

Defendant's Response to Item No. 3

(a) Xerox has manufactured and marketed the following equipment:

Xerox 914	Xerox 1824
Xerox 420	Xerox 1860
Xerox 720	Xerox Standard Equipment
Xerox 1000	Xerox Standard Equipment Model 1218
Xerox 813	Xerox Copyflo 24

*Defendant's responses conform to the definitions in Plaintiff's Discovery Request, but defendant makes no concession as to their accuracy.

Xerox 330

Xerox 660-III

Xerox 660-I

Xerox 2400

Xerox 3600-III

Xerox 3600-I

Xerox 7000

Xerox 4000

Xerox 3100

Xerox Copyflo 24 C

Xerox Copyflo 11

Xerox 840

Xerox 600 MEP

(b) None.

(c) None.

(d) Xerox has marketed the following equipment:

Xerox Offset 8500

Xerox Offset 8503

Xerox Offset 8300

Xerox Offset 8305

Xerox Offset 8320

(e) None.

Item No. 4

For each such model:

* * *

(b) state the date on which it was first marketed and whether it is still being marketed today;

* * *

(e) state the revenues produced as a result of its marketing by Xerox in each of the years 1960 through 1972;

* * *

(k) produce documents setting forth each price term (including minimums, guarantees and time periods) at which it ever was available (whether for sale, lease or rental and whether alone, together with other equipment or pursuant to any plan, including any Machine Utilization Plan or other form of major account pricing) during the period January 1, 1960 to date.

Partial Answers and Responses to Certain of Plaintiff's Interrogatories and Document Requests

Defendant's Response to Items No. 4(b), 4(e) and 4(k)

(b) The dates are from price lists.

Xerox 914	January 1, 1960
Xerox 420*	March 15, 1965
Xerox 720	March 1, 1966
Xerox 1000	August 1, 1972
Xerox 813	September 25, 1963
Xerox 330*	October 15, 1965
Xerox 660-III	April 1, 1967
Xerox 660-I	July 1, 1968
Xerox 2400	September 12, 1965
Xerox 3600-III	June 1, 1968
Xerox 3600-I	February 1, 1969
Xerox 7000	September 1, 1969
Xerox 4000	July 2, 1971
Xerox 3100	May 1, 1973
Xerox Offset*	November 1968
Xerox 1824	July 1, 1960
Xerox 1860	February 1, 1964

* No longer being marketed.

Xerox Standard Equipment	Prior to January 1, 1960
Xerox Standard Equipment Model 1218	Prior to January 1, 1960
Xerox Copyflo 24	Prior to January 1, 1960
Xerox Copyflo 24C	February 1, 1960
Xerox Copyflo 11	Prior to January 1, 1960
Xerox 840	November, 1970
Xerox 600 MEP	July 1968

(e) See Exhibit I attached hereto, which is filed with the Court under seal and is to be treated as confidential pursuant to the letter agreement of confidentiality between counsel dated September 26, 1973.

(k) Plaintiff is referred to the documents already produced in response to Item No. 1, which relate to FTC Specifications 2 and 23. Additional documents are being made available (Nos. SA 1 through SA 228).

Item No. 8

To the best of Xerox' knowledge, information and belief, identify by model number, manufacturer and marketer every plain paper office copier manufactured or marketed at any time by any person other than Xerox, Rank-Xerox and Fuji-Xerox.

Partial Answers and Responses to Certain of Plaintiff's Interrogatories and Document Requests

Defendant's Response to Item No. 8

MANUFACTURER AND/OR MARKETER	MACHINE MODEL
Addressograph-Multigraph	AM-6000
Apeco	Van Dyk 4000
Cavalier Products	Royal Bond II
Graphic Communications	Copython Royal Bond
IBM	8700 Copier II
Litton	Litton Royal Bond
Paul B. Williams, Inc.	Van Dyk 4000
Remington Rand	530
Reprox	Reprox-10
Savin	Savin 300
Saxon	Saxon PPC-1
3M	VHS VHS Reduction Unit
Van Dyk	Van Dyk 4000

Item No. 12

State whether Xerox knows, or has reason to believe, that any person at any time manufactured or marketed copying equipment (which term does not include duplicators) having the capability of producing copies or images on plain or bond paper which did not operate on an electrostatic principle . . . .

Defendant's Response to Part of Item No. 12

Defendant knows of none.

Item No. 13

State the types or classifications of customers presently used by Xerox in connection with its marketing of plain paper office copiers (e.g., federal government, state government, municipalities, insurance companies, manufacturing concerns, banks, law firms, accounting firms, leasing companies, etc.).

Defendant's Response to Item No. 13

Plaintiff is referred to a document entitled "The New Marketing Code Reference Manual (1973 Edition)," a copy of which is being made available (Nos. SA 229 through SA 277).

Item No. 14

(a) State the revenues received by Xerox from its plain paper office copying activities in each of the years 1960 through 1972 and, if available, also for the United States alone.

* * *

Defendant's Response to Item No. 14(a)

Plaintiff is referred to documents already produced in response to Item No. 1 which relate to FTC Specification 13, and to the response to Item No. 4 given above.

Item No. 15

State the profits before taxes on the revenues referred to in answer to Item 14.

Defendant's Response to Item No. 15

Plaintiff is referred to documents already produced in response to Item No. 1 which relate to FTC Specification 13.

Item No. 16

Identify by inventor, number and date and country of issue, and by the following categories, each patent in or related to the field of xerography, at any time:

(a) owned by Xerox, alone or jointly;

* * *

Defendant's Response to Item No. 16(a)

Plaintiff is referred to documents already produced in response to Item No. 1 which relate to FTC Specifications 8(a), 8(b) and 36(c).

Item No. 17

As to each patent identified in answer to Item 16:

(a) give the chain of title, including the date of each assignment, transfer, conveyance and other transaction involved;

* * *

Defendant's Response to Item 17(a)

Plaintiff is referred to the documents described in defendant's response to Item No. 16(a).

Item No. 26

With respect to Xerox employment agreements containing provisions to the effect that the employee will not, for a period of years after termination of his employment, "independently engage in xerography or, directly or indirectly, serve or advise in xerography or be employed in xerography by any individual, firm or corporation," or containing any other post-employment restriction:

(a) produce a form of each such agreement; state the period during which each such form was used by Xerox; and state the types or classifications of employees who have signed each such form;

* * *

Defendant's Response to Item 26(a)

A form of each such agreement is being provided (Nos. SA 278 through SA 288). Each form indicates on its face the years during which it was used. The form effective on April 1, 1970 eliminated the provision in question. Xerox required only "exempt employees" to sign the April 1970 form. Prior thereto all employees were

required to sign such forms. An "exempt employee" includes managers, supervisors, administrative and professional people and sales representatives. It excludes clerical personnel, technical representatives, research and engineering aides, draftsmen and those in similar positions.

Item No. 29

Produce all forms of patent and patent application assignment agreements used by Xerox, Rank-Xerox and Fuji-Xerox with employees, consultants and others; and state the period during which each such form was used.

Defendant's Response to Item No. 29

Four different forms of assignment used by Xerox Corporation are being provided (Nos. SA 289 through SA 292). Defendant does not maintain a file of all forms it has ever used. The document marked SA 289 was used in 1964. Earlier assignment forms are available for public inspection in the file wrappers of all U.S.-issued Xerox patents at the United States Patent Office. The document marked SA 292 was used in 1967. The document marked SA 290 was used in 1968. The document marked SA 291 is the current form and is believed to have been used since early 1970.

Item No. 58

(a) Produce all press releases of Xerox, Rank-Xerox and Fuji-Xerox from January 1, 1960 to date.

(b) Produce all copies of Xerox World and its predecessors and successors, if any, from January 1, 1960 to date.

Defendant's Response to Item No 58

In response to Item No. 58(a), defendant will make available hard copies of press releases of Xerox Corporation only (Nos. SA 1700 through SA 2701). Additionally, an index of press releases stored on microfilm is provided (Nos. SA 2702 through SA 2804). Plaintiff may designate from the index those documents which it wishes to examine as hard copies; certain of the available copies being produced will appear on the index.

The documents requested in Item 58(b) are being produced (Nos. SA 2850 through SA 4975).

Item No. 59

Produce all advertisements of Xerox concerning or related to the field of xerography from January 1, 1960 to date.

Defendant's Response to Item No. 59

Plaintiff is referred to documents already produced in response to Item No. 1 which relate to FTC Specification 41(a). In addition, further documents are being produced (Nos. SA 4976 through SA 5472).

Partial Answers and Responses to Certain of Plaintiff's Interrogatories and Document Requests

Item No. 60

Produce all scripts, transcripts, reprints and summaries of speeches, talks, interviews or other presentations given by any Xerox officer, director or other representative concerning or related to the field of xerography from 1948 to date.

Defendant's Response to Item No. 60

Plaintiff is referred to documents already produced in response to Item No. 1 which relate to FTC Specifications 16 and 22. Certain additional documents are being produced (Nos. SA 5473 through SA 5713).

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Partial Answers and Responses to Certain of Plaintiff's Interrogatories and Document Requests

STATE OF CONNECTICUT)
: ss.:
COUNTY OF FAIRFIELD)

G. EMMETT SMITH, being duly sworn, deposes and says: I am Assistant Secretary of Xerox Corporation, defendant in this action; I have read the foregoing Defendant's Partial Answers and Responses to Certain of Plaintiff's Interrogatories and Document Requests Respecting Its First Claim, and am familiar with the contents thereof; and they are true to the best of my knowledge, information and belief.

G. Emmett Smith

Sworn to before me this
12th day of October, 1973

Cecilia Schaefer
Notary Public

My Commission Expires
April 1975

Partial Answers and Responses to Certain of Plaintiff's Interrogatories and Document Requests

XEROX
NON-TECHNICAL CONFIDENTIAL

Exhibit I

Defendant's Response to Item 8(e)

SALES REVENUE

813

Year	Revenues
1963	-
1964	-
1965	$781,396
1966	824,349
1967	461,014
1968	153,864
1969	118,064
1970	86,000
1971	28,000
1972	32,000

330

Year	Revenues
1965	-
1966	$ 5,000
1967	18,250
1968	3,000
1969	9,300
1970	-
1971	-
1972	-

XEROX
NON-TECHNICAL CONFIDENTIAL

914

Year	Revenues
1960	-
1961	-
1962	-
1963	$383,500
1964	4,603,502
1965	5,167,030
1966	2,039,076
1967	392,163
1968	290,880
1969	66,389
1970	33,000
1971	153,000
1972	203,000

420

Year	Revenues
1965	-
1966	$ 3,876
1967	54,887
1968	70,306
1969	-
1970	-
1971	-
1972	-

XEROX
NON-TECHNICAL CONFIDENTIAL

720

Year	Revenues
1966	-
1967	$ 4,591
1968	-
1969	244,500
1970	351,000
1971	489,000
1972	385,000

2400

Year	Revenues
1965	-
1966	-
1967	-
1968	$ 70,210
1969	2,826,700
1970	456,000
1971	907,000
1972	2,771,000

660

Year	Revenues
1967	-
1968	-
1969	-
1970	$ 73,000
1971	331,000
1972	564,000

Partial Answers and Responses to Certain of Plaintiff's Interrogatories and Document Requests

3600-I

Year	Revenues
1969	-
1970	$ 6,000
1971	984,000
1972	2,277,705

XEROX
NON-TECHNICAL CONFIDENTIAL

3600-III

Year	Revenues
1968	-
1969	-
1970	-
1971	$ 109,000
1972	143,180

7000

Year	Revenues
1969	-
1970	-
1971	$ 74,000
1972	2,182,801

720/1000

Year	Revenues
1970	$ 351,000
1971	489,000
1972	385,441

1824

Year	Revenues
1960	-
1961	$ 254,220
1962	123,922
1963	61,355
1964	16,933
1965	94,482
1966	135,954

XEROX
NON-TECHNICAL CONFIDENTIAL

1824 (cont.)

Year	Revenues
1967	$ 210,403
1968	185,650
1969	177,750
1970	304,000
1971	231,000
1972	451,000

Xerox Standard Equipment

Year	Revenues
1960	$1,168,049
1961	1,007,039
1962	884,229
1963	816,863
1964	444,098
1965	627,844
1966	497,526
1967	288,214
1968	226,951
1969	166,838
1970	175,000
1971	90,000
1972	71,000

XEROX
NON-TECHNICAL CONFIDENTIAL

Copyflo 24

Year	Revenues
1960	$ 15,000
1961	177,000
1962	-
1963	-
1964	-
1965	109,980
1966	155,938
1967	268,909
1968	151,374
1969	127,389
1970	60,000
1971	661,000
1972	145,000

Copyflo 11

Year	Revenues
1960	$2,943,840
1961	932,114
1962	483,501
1963	443,501
1964	896,917
1965	1,081,026
1966	636,186
1967	1,240,079
1968	396,351
1969	581,071

XEROX
NON-TECHNICAL CONFIDENTIAL

Copyflo 11 (cont.)

Year	Revenues
1970	$ 486,000
1971	207,000
1972	403,000

1860

Year	Revenues
1964	-
1965	-
1966	-
1967	$ 30,000
1968	124,515
1969	240,500
1970	60,000
1971	221,000
1972	157,000

600 MEP

Year	Revenues
1968	-
1969	-
1970	-
1971	$ 76,000
1972	37,000

XEROX
NON-TECHNICAL CONFIDENTIAL

LEASE REVENUE

813

Year	Revenues
1963	$ 554,000
1964	20,958,000
1965	52,346,000
1966	69,568,000
1967	65,439,000
1968	53,535,000
1969	39,714,000
1970	28,399,000
1971	17,916,000
1972	11,281,000

330

Year	Revenues
1965	Not available
1966	$ 7,277,000
1967	15,371,000
1968	8,456,000
1969	3,056,000
1970	-
1971	-
1972	-

660

Year	Revenues
1967	$ 3,258,000
1968	32,201,000
1969	63,286,000
1970	96,897,000
1971	118,350,000
1972	131,161,000

XEROX
NON-TECHNICAL CONFIDENTIAL

914

Year	Revenues
1960	Not available
1961	Not available
1962	$ 99,170,000
1963	143,864,000
1964	184,065,000
1965	172,379,000
1966	131,917,000
1967	99,434,000
1968	76,284,000
1969	65,648,000
1970	66,126,000
1971	45,242,000
1972	36,244,000

420

Year	Revenues
1964	Not available
1965	$ 4,400,000
1966	26,522,000
1967	17,225,000
1968	5,987,000
1969	1,689,000
1970	-
1971	-
1972	-

XEROX
NON-TECHNICAL CONFIDENTIAL

720

Year	Revenues
1966	$ 18,434,000
1967	69,978,000
1968	110,102,000
1969	122,963,000
1970	128,975,000
1971	124,836,000
1972	105,028,000

2400

Year	Revenues
1965	$ 82,000
1966	39,111,000
1967	156,421,000
1968	269,641,000
1969	301,499,000
1970	255,399,000
1971	214,227,000
1972	199,137,000

3600-I

Year	Revenues
1969	$ 47,053,000
1970	162,898,000
1971	213,877,000
1972	226,070,000

XEROX
NON-TECHNICAL CONFIDENTIAL

3600-III

Year	Revenues
1968	$ 3,058,000
1969	30,446,000
1970	38,077,000
1971	37,027,000
1972	35,708,000

7000

Year	Revenues
1969	$ 1,632,000
1970	41,066,000
1971	133,645,000
1972	227,983,000

4000

Year	Revenues
1971	$ 4,180,000
1972	82,511,000

720/1000

Year	Revenues
1970	$128,975,000
1971	124,836,000
1972	105,028,000

1824

Year	Revenues
1960	Not available
1961	Not available
1962	Not available
1963	1,765,000
1964	2,488,000
1965	3,067,000
1966	3,909,000

XEROX
NON-TECHNICAL CONFIDENTIAL

1824 (cont.)

Year	Revenues
1967	$ 4,817,000
1968	5,339,000
1969	5,258,000
1970	6,162,000
1971	4,702,000
1972	3,761,000

1860

Year	Revenues
1964	$ 16,000
1965	510,000
1966	1,290,000
1967	2,189,000
1968	2,962,000
1969	3,773,000
1970	7,777,000
1971	5,531,000
1972	6,200,000

Xerox Standard Equipment

Year	Revenues
1960	Not available
1961	Not available
1962	Not available
1963	2,597,000
1964	2,013,000
1965	1,466,000
1966	893,000
1967	693,000
1968	467,000
1969	385,000
1970	391,000
1971	235,000
1972	151,000

Partial Answers and Responses to Certain of Plaintiff's Interrogatories and Document Requests

XEROX
NON-TECHNICAL CONFIDENTIAL

Copyflo 24

Year	Revenues
1960	Not available
1961	Not available
1962	Not available
1963	$ 4,594,000*
1964	5,037,000*
1965	5,202,000*
1966	5,320,000*
1967	5,281,000*
1968	1,885,000
1969	1,622,000
1970	1,763,000
1971	1,332;000
1972	594,000

Copyflo 11

Year	Revenues
1960	Not available
1961	Not available
1962	Not available
1963	**
1964	**
1965	**
1966	**
1967	**

*A break-down between Copyflo 11 and Copyflo 24 prior to 1968 is not available.

**See Copyflo 24 lease revenue figures above and footnote.

XEROX
NON-TECHNICAL CONFIDENTIAL

Copyflo 11 (cont.)

Year	Revenues
1968	$2,943,000
1969	2,406,000
1970	2,307,000
1971	1,891,000
1972	1,646,000

600 MEP

Year	Revenues
1968	-
1969	$ 52,000
1970	76,000
1971	2,625,000
1972	6,004,000

840

Year	Revenues
1970	$ 14,000
1971	799,000
1972	5,035,000

Offset

Year	Revenues
1969	$ 78,000
1970	66,000
1971	-
1972	-

PROCEEDINGS OF SEPTEMBER 21, 1973

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF CONNECTICUT

----------x

SCM CORPORATION :

Plaintiff :

vs. : Civil Action No. 15,807

XEROX CORPORATION :

Defendant :

----------x

September 21, 1973
New Haven, Connecticut

B E F O R E :

THE HONORABLE JON O. NEWMAN, U.S.D.J.

A P P E A R A N C E S :

ATTORNEYS FOR THE PLAINTIFF:

MESSRS. PROSKAUER, ROSE, GOETZ & MENDELSOHN
300 Park Avenue
New York, New York
By: STEPHEN RACKOW KAYE, Esq., of Counsel.
RONALD S. RAUCHBERG, Esq., of Counsel.

MESSRS. JACOBS, JACOBS & GRUDBERG
207 Orange Street
New Haven, Connecticut
By: IRA B. GRUDBERG, Esq., of Counsel.

ATTORNEYS FOR THE DEFENDANT:

MESSRS, KAYE, SCHOLER, FIERMAN, HAYS & HANDLER
425 Park Avenue
New York, New York
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THE COURT: Civil 15807, SCM Corporation versus Xerox Corporation. This is the defendant's Motion to Strike.

MR. SPINDLER: I would like to introduce Robert D. Fier of the New York firm of Kenyon and Kenyon, Reilly, Carr and Chapin. He is a member of the Bar in the State of New York and the United States District Court for the Southern District of New York, and I would like to move his admission for the purposes of this case pursuant to Rule 2E of our local rules.

THE COURT: All right.

MR. SOBEL: My name is Gerald Sobel and, as you know, I represent Xerox Corporation.

We have, your Honor, two motions directed against the Complaint this morning. The first is a Motion to Strike the First and Second Claims of the Complaint, which is SCM's anti-trust claim because they are excessively verbose and complete with unnecessary and redundant evidentiary detail. In addition they include references to the FTC action against Xerox, which are irrelevant, immaterial

and highly prejudicial to us.

Now, the Third Claim, your Honor, the claim pertaining to the 006 patent, refers to the First Claim as well, and so our Motion to Strike is directed to that part of it.

In addition, Xerox is moving for a more definite statement of the other portion of the Third Claim which incorporates by reference the reasons alleged in six other patent litigations in which Xerox is involved as the basis for claiming invalidity, unenforceability and procurement by fraud of the 006 patent.

Now, with respect to our Motion to Strike, your Honor, the Federal Rules explicitedly require that a complaint contain a short and plain statement of the claim and that each averment be simple, concise and direct. This really needs no repetition.

Now, the antitrust claim here covers 42 printed pages. Some ten times longer than the Litton Complaint, which is roughly comparable, and short of reading Rule 8 out of the Federal Rules, we maintain that the Complaint can't stand.

Now, the remarkable prolixity of the Complaint is achieved by a huge aggregation of evidentiary detail, liberal quotations from witnesses, from documents, voluminous statistics covering different years, and many years relating to the revenue, profit, R & D expenditures, certain statistics pertaining to patents, and in addition the specifications of our entire line of models of copying and duplicating equipment -- not all but most of the specifications -- numbers of our employees, the details of license offers we made, but which were modified in further negotiation.

There is a vast aggregation of this stuff and on top of this there are prejudicial references mixed in to the fact that the FTC brought an action against Xerox.

THE COURT: Putting to one side for just a moment the FTC problem, which is a rather special objection that you have. You are really arguing prejudice there.

MR. SOBEL: And evidentiary detail.

THE COURT: Holding that for just a moment. Even if you are right, that the balance

of the Complaint has a great deal of evidence in it, what real harm? How is your capacity to defend the suit impaired because of the pleading, let's say for argument purposes, goes beyond an allegation of the essential facts and alleges considerably more facts?

MR. SOBEL: I would like to answer that, but with your permission I would like to make a statement about the purpose of Rule 8.

THE COURT: All right.

MR. SOBEL: And about the controling authority in this Circuit, which goes to the answer to that question.

In the first place, modern Rule 8 was adopted to do away with the old form of pleading.

Now, as Moore says, and Moore is heavily relied on by plaintiffs in their Brief, that under the old practice the pleadings served the function of given notice of the claim asserted but also carried the burden of formulating issues and of advising the adverse party of the facts involved. The whole purpose of the adoption of Rule 8, as Moore says, is that now the deposition and discovery procedure

under Rules 26 and 37 and the pretrial conference under Rule 16 afford a much more efficient method of getting at the facts than pleadings ever offered, and he goes on to say that the only offers which pleadings continue to serve is that of giving notice. That is Section 813 at 1703 and 04.

One more reference to the same point. The Second Circuit in Nagler said that pleadings of the evidence is surely not required and is on the whole undesirable. This is in our Brief but I quote it because I think it's despositive. It is a matter for the discovery process, not for allegations of detail in the Complaint. The Complaint should not be burdened with possibly hundreds of specific instances, and if it were, it would be comparatively meaningless at trial where the parties could adduce further pertinent evidence at discovery.

Now, the vice in SCM's inclusion of this mass of evidentiary detail is self-evident from their Brief. They say they have it in there so that it will result in admissions which it can then use as evidence. But that

is what the discovery process is for, your Honor, not the pleading process, and request to admit might be used for this purpose or interrogatories or document request, and with respect to the latter two, if we were responding to them, we would give them the documents and they would derive the information, or with respect to Rule 33, with respect to interrogatories, if we had documents which disclosed the answers to their interrogatories we would turn them over and they could get the evidence out of the documents themselves instead of having us look at each allegation, try to locate the source, try to reconcile the differences in their statistics from the ones evident from our books and do it sentence by sentence so that we have to affirm, deny, and in many cases, if it's partly correct admit part and then say why the rest is wrong.

They already have 61 discovery requests and interrogatories outstanding.

THE COURT: Why would you have to say why the rest is wrong?

MR. SOBEL: We may have some discretion there, but in many instances in answers you may wish to deny part, deny all and then -- or admit part and say in what respect their sentence or paragraph is wrong. I am not saying we do that every time but there will be occasion when we will do that. It is not merely a matter of putting in a general denial, and the problem is that sometimes we don't know if they are right or wrong. We don't know the sources of this stuff. All kinds of statistics and numbers which we have to go burrowing through our papers for.

And as I say, if we come up with a slightly different figure, we have the problem of how to reconcile, and this is a discovery procedure that I am describing, your Honor, not a procedure contemplated by the rules for the answer.

Now, they go beyond this. They say that somehow this would simplify things. I suggest, your Honor, that it will simplify nothing. The only way to simplify a major case of this sort is to drop out issues of the sort which

would appear ultimately in a pretrial order, as we get along towards trial, after each side has a pretty good idea of what its case is, after they have seen the other side's documents and perhaps conducted some other forms of discovery.

Now, we are already involved in responding to SCM's document requests and interrogatories. There are 61 of them and if you count the cross references and the sub-paragraphs, my conservative count is about 225. We have available for them now, pursuant to our understanding which we reached last week before your Honor, about fifty thousand pages of documents ready to be turned over. We are trying to work out a confidentiality order and they have not yet had a chance to address our proposal of last week.

They are not entitled to conduct two ways of discovery simultaneously, one by the pleadings which as the history of Rule 8 indicates and which as the Second Circuit in Nagler indicates, is not a function of the pleadings.

Now, this is not a case in which this

motion could be construed as dilatory, as SCM papers also suggest. We have undertaken to answer a number of SCM's document requests. As soon as we work out our confidentiality problems, which are not serious problems, as soon as we can talk about them very soon after they will be worked out, they will be brought up-to-date on four waves and four years of discovery in the FTC and Litton cases, and not to mention the material available from the IBM case. They will be in the equivalent position of these other parties who have been litigating much longer and they will be in effect well along toward trial if they choose to take advantage of this mass of material which tells just about everything there is to know about Xerox.

Now, they contend also -- I tried to answer your Honor's question and I think that I have.

THE COURT: Well, it sounds though as it whatever burden or uncertainty you face in responding to the Complaint as it stands, you are going to encounter anyway if they --

certainly if they transf r these into request for admission. To the extent they ask for documents, you can say here is the document and you figure out yourselves what you think it says, but to the extent they are asking you to admit, aren't you going to have the same problem of particularity and wondering whether you can reconcile all the numbers and things of that sort?

MR. SOBEL: Your Honor, the last time I had to stipulate to facts of the sort that are in this pleading, evidentiary facts of this sort, was on the eve of trial. That's when this is usually done. They do have a right to serve requests to admit and if they do we will handle it in due course in the discovery process, but the pleadings do not contemplate request to admit of this sort or of the discovery of evidence.

THE COURT: That may be, that if we were grading them, as it were, it might get low marks, but I'm trying to understand how your task in defending will be altered.

Now, I take it your point is that even if

you have to deal with these fact allegations it will be easier -- I don't mean in a trivial sense but there will be a better development of all the evidence at a later stage of the case and, therefore, to that extent it will be less burdensome. Is that really what your point is?

MR. SOBEL: That's part of the point. And their discovery requests which would go to this evidentiary -- this mass of evidence, which is in their pleading, would come along in an orderly fashion so that we can deal with it in an orderly fashion and not deal with it, not attempt to deal with it in a period provided by the rules, which did not contemplate a printed complaint of 46 pages.

Now, there is the burden.

Now, beyond that I would like to make a point about the low grades and the logic implicit in your question. There is no doubt-- I believe it's inarguable that they have violated the rule. Now, having arrogated to themselves the privilege of pleading this mass of evidence in violation of the rule, I question, and there being no dilatory aspect to this, I

question whether the burden must shift to us, even though I believe we met it, I question whether the burden shifts to us of showing why they should -- why this shouldn't stand.

But in any event, our position is since that it does impose a serious burden on us, since the rules didn't contemplate it and since the discovery process is adequately provided for and since we are not being dilatory, they are not entitled to have this stand. This is purely on the evidentiary detail.

Just a word on the point the plaintiffs make in their Brief. They say the rules don't provide for the striking of evidentiary matter or of an entire claim because it contains some evidential matter. This simply overlooks the cases we cite, pages 6 and 7 of our Brief, your Honor, and their cases admit as much. In Atwood, which they spend a page on, the Court says brevity is certainly desirable in order that the time of Court and counsel may be reduced and the cost of printing minimized. That's especially appropriate here. And in that case the Court suggested striking verbose

portions of the Complaint.

What had happened there was that the plaintiff had failed to comply with an order directing a plain and concise statement and the Court dismissed the case with prejudice.

The Court of Appeals said, well, you should have just stricken the verbose portions. Take another case they cite, it says only and when a narrative of evidence is tediously long or prejudicial or the evidentiary details are inadmissible will the moving parties be granted relief. Here the narrative of evidence is tediously long, and to get to the FTC point, it's prejudicial.

And again, just to button up this point, they rely on Moore. Moore says, specifically with respect to antitrust cases, this is not to say that the decisions have eliminated the need for careful pleading in antitrust cases. Quite the contrary, the elements must still be stated showing a theory which if sustained would entitle the pleader to relief. Moreover, a pleading which is excessively detailed, tangled or verbose or which contains excessive and

irrelevant material will be stricken but with the right to plead over.

Now, with your Honor's permission, unless you have a further question, I would like to move on to say something about the references to the Federal -- I should say something more.

Plaintiffs allude in here to our Motion for More Definite Statement with respect to the FTC Complaint, that is in the FTC action, we asked the FTC to provide a more definite statement with respect to two things: one, we couldn't tell from their pleading whether they were alleging a single act of monopolization by virtue of some dozen or more separate acts in violation of Section 5 of the Federal Trade Commission Act or whether they were asserting that plus whether each act itself violated Section 5 of the Federal Trade Commission Act, and beyond that we asked that they resolve ambiguities that were inherent in their statement of each act.

For example, they have a tying allegation and we asked what was tied to what. I would be delighted to have counsel hand those papers up

as he promised to do.

I point out also that the FTC practice is for complaint after a long period of discovery and is so somewhat different than here.

With respect to the pleading of the FTC Complaint and the fact that there is an action by the Commission pending against Xerox in the SCM Complaint, your Honor, plaintiffs defend that on the ground that that is relevant to their contentions in the case.

We contend that the evidentiary value, the fact that the FTC brought an action is nil. Whether or not Xerox was motivated to offer licenses in 1970 by the fact that the FTC brought suit would make no difference to the outcome. Either the offer was meaningful or was not meaningful. But even if it is somehow relevant, it makes no difference. It's still evidentiary detail which should not be pleaded and beyond that it's highly prejudicial.

Now, the First Circuit case in our Brief, International Shoe, weighed the relevance of the civil antitrust judgment in the United Shoe case, decided by Judge Wyzanski, in this

later private treble damages action against the prejudice quotient, and it says where the prejudice quotient is high, this fact will frequently render inadmissible evidence which from a purely logical standpoint may have a significant probative thrust, and in that case they excluded it.

There were some differences in time period so that it did not qualify under Section 5 of the Clayton Act as prima facie evidence of the violation. And the case cited in the Second Circuit by plaintiffs, Gottesman, distinguishes International Shoe on this prejudice ground. They say in the International Shoe case there was a jury but in Gottesman there was no jury and so Gottesman said that maybe the prior DuPont-General Motors judgment, not complaint, judgment, would be relevant because the nagging problem of undue prejudice is minimized.

Finally, on this point, your Honor, as Judge Weinfeld held in the Independent Theater case, which we cite at page 16 of our Brief, with respect to the paramount antitrust suit,

while the plaintiff may be entitled upon trial to avail itself of the paramount decree, it is not entitled now to honeycomb its complaint with evidential references to various alleged incidents, prior incidental and subsequent to the entry of the decree and the alleged violations thereof.

Similarly here, your Honor, SCM is not entitled to honeycomb its Complaint with references in one direct or suttle way or another to the FTC action.

Finally, your Honor, --

THE COURT: Even if it turned out that it may have materiality as a matter of evidence?

MR. SOBEL: Definitely, even if. The prejudice quotient is too high, your Honor, as the First Circuit said.

Our second motion is a Motion for More Definite Statement of the Third Claim which is the claim pertaining to the 006 patent. What SMC has done here is to assert as the basis for a claim of invalidity, unenforceability and fraudulent procurement of the 006 patent,

the reasons alleged in six other patent cases.

THE COURT: What about their point on that. I may do it an injustice and they will-- but it seems to me from a quick look that I took at their papers -- that what they are really saying about Count Three is it may not be the most exemplary pleading but the time to correct it is after the Dennison case in New York when either its brevity won't matter or its brevite can then be appropriately directed.

MR. SOBEL: Your Honor, first of all, Blonder-Tongue says nothing about the requirements of pleadings.

Second of all, --

THE COURT: I appreciate that but again, -- it's just a question of when really. They are just saying that we could just hold up on that problem.

MR. SOBEL: In their Complaint, your Honor, among many other motions that are included besides evidentiary detail there is a Motion to Stay the Third Claim. We haven't litigated that motion and it may very well be, your Honor, that we don't consent to it.

Moreover, we may have a counterclaim which we may assert, which may involve other patents as well as Middleton-Reynolds and which may require us to go forward with expedition on that Third Claim.

We are entitled to know the basis of their claim whether Dennison goes to trial or not. And in light of that it is simply not entitled to wait until Dennison goes to trial because we have not consented to their Motion to Severance, and I would like to point out, your Honor, that how this fits with their contention on the antitrust claim that they are entitled to use their Complaint for discovery, but then tell us that we can find out the rudiments of their claim in our discovery of them sometime in the future, way off in the future, I can't fathom their logic.

On the one case they weigh the complaint down with this mammoth pleading of evidence, and on the other hand they don't tell us the rudiments of their claim and they resist our request to find it out.

Your Honor, they don't meet our cases in

their Brief on this point. I won't go into them. But we think they are despositive and that the rules cannot possibly contemplate that we have to go to six other cases to find out the basis for their claim.

In conclusion, your Honor, I would like to say that printing does not make it perfect.

THE COURT: Let me ask you one thing about what it is you want me to do. With respect to your first point, that it is prolix and has too much evidentiary matter, do you want me to indicate where it is deficient or are you simply saying that it is deficient and I should strike it with leave to amend and then leave it to them to do better next time?

MR. SOBEL: Your Honor, we ask for the latter. The Complaint is laced with evidence and there is no question that they are very competent counsel and can draw a complaint without a mass of evidentiary detail and I don't think it would be appropriate for us or for your Honor to go through this Complaint and attempt to separate the wheat from the chaff. We're asking that the First and Second

Claim and Third Claim insofar as it's predicated on the first be stricken with leave to refile and with a proper form. Thank you.

MR. KAYE: May I touch first the Third Claim, that is, the motion with respect to paragraph 176a where we simply allege that the patent involved, the 006 patent, is invalid, unenforceable and fraud, a, for each of the reasons alleged by the various plaintiffs in the four other suits, the Donnison suit.

In the first instance, under the notice rules the allegation of invalidity, unenforceability are sufficient notice in and of themselves, so that that could be denied generally.

The allegation of the reasons of these other cases is an additional allegation. But your Honor has, I think, correctly stated our point from a practical point of view, this is a matter that can be deferred. I would add that although Blonder-Tongue -- I may mispronounce it -- Blonder-Tongue says, let's worry about the allocation of resources, let's not misallocate the resources of litigants in these patent cases, and it overturned years of

history.

Our point is very simple. We can and we did before we had the pleading, we went over all of the pleadings in these other cases. No problem at all in the sense of doing the work to go down and allege the various reasons for why it violates 102, Section 102 of the Patent Act, Section 103 of the Patent Act, Section 112 of the Patent Act.

If the Court desires, we can do it. It will take a day or two to go through all the pleadings and do that but it's a useless act under the substantive principle of Blonder-Tongue in a sense that if there is an adverse determination in those cases against the patent, then there is the collateral estoppel affect here, assuming that Xerox had an opportunity to fully litigate the issue there.

The rule for the more -- Motion to More Definite Statement is if it is so vague or ambiguous that the defendant cannot plead to it, the defendant is not so vague or ambiguous, the defendant is fully familiar with its defenses in that case and it can simply generally

deny and that's the end of it and then at such time as we reach this part of the case, if there is any need for further specificity it can be done through the interrogatories or any other matter --

THE COURT: Doesn't that in effect mean that I am granting your request to stay if I just leave that phase of the case in that posture?

MR. KAYE: No, it doesn't, your Honor. It is simply saying that the pleader, that is the defendant, can plead to this particular pleading. There is no vagueness or--

THE COURT: He can't plead to it in a way that really frames the issues for trial. In other words, I think your point is something further would have to be done before we got to trial.

MR. KAYE: Not necessarily by way of pleading. It can frame the issues from the purposes of pleading on the pleadings. We allege it is invalid. They deny our allegation that it is invalid. That is a sufficient notice pleading.

THE COURT: Is it really though, to just have an allegation that it's invalid or however many grounds are comprehended in those suits in New York and they come in and say it's not?

Now, I do not know who the trier of fact will end up being, probably me, but those pleadings in that posture do not really frame the issues.

Now, I understand your point that discovery will assist in a pretrial order that will be called for --

MR. KAYE: I think the closest analogy is the form on infringement, the Federal form, the official Federal form, where it is permissible to simply say you own the patent and the defendant is infringing the patent, and that's enough notice.

Now, on that analogy I would say that it is enough notice and certainly in the circumstances that SCM says patent is invalid, patent is unenforceable, and as to this point, your Honor, I really -- we really feel that if you think that at this juncture we ought to

say that it's invalid because it violates Section 102 of the Patent Act in that -- and then make that allegation and go to 103 and 112, that we have no problem with it and we ought not to be taking up too much time here.

We think one of the valuable consequences of Blonder-Tongue in patent cases is that it has its procedural affects, and here where there is a policy matter, where you have an attack on a patent in one case and there are other people on the sidelines, say to speak, waiting, that it simply is a waste of everybody's time to move that case along in any way. It is enough to give -- for this other person to give notice to the patentee that he is following, but what I am saying is I think we are right as a practical matter.

If your Honor wants to have a more definite statement we can do it. I would like not to do it. I would like to have the one day or two of working time available for the real issues in this case. So I see no injury to us other than spending a couple of days pleading something. I just feel that it will be -- it

may very well be a useless act. I assume your Honor doesn't want to hear any more on that.

On the main motion, as Mr. Sobel said, we are going to hand up and we have referred to it in the -- in our Brief, a copy of the Complaint in the Federal Trade Commission proceeding. Immediately after that Complaint, Xerox made a motion in which they asked for a more definite statement with respect to about ten of the allegations contained in that Complaint by the staff.

I should point out that Xerox in the Litton case denied generally all of the general allegations of the Complaint there and then took a different position, for example, in the Commission Xerox said that paragraph 14a of the Commission's Complaint alleges that Xerox had engaged in monopolizing and attempting to monopolizing patents applicable to office copiers, and then they wanted specificity, the Complaint should state which patents they are accused of, and then 14b alleges that Xerox has been engaged in maintaining a patent barrier to competition, etc.

Xerox' position was specificity and the Complaint should state how Xerox attempted to recreate such a patent structure, which patents are in this structure and which expired patents are involved.

14c, the Commission alleged that Xerox had been engaged in developing and maintaining a patent structure of great size and complexity and obscurity of boundaries, and Xerox says that the Complaint should state which patents are involved and what is meant by obscurity.

Next the Complaint alleges that Xerox has been engaged in using its patent position to obtain access to technology obtained by actual protection from competitors.

Xerox takes the position the Complaint should state which technology and which competitors, and then there is more about the licensing and there is more about what was included in the license provisions.

The point was that Xerox wanted to have greater specificity, as much specificity as possible by way of pleading to enhance its opportunity to defend and know what charges it

faced.

The staffs' response to that was that it opposed it as a matter of principle, that the Complaint was adequate and it was far more specific than anything in the Litton case and in the course of their memorandum set forth a great deal of specificity.

Xerox followed that up with a -- with motions requiring the staff to identify the kind of fact they are going to prove and the documents. The long and the short of it is we did exactly what Xerox wanted to do in the Commission proceedings, SCM has been very specific.

THE COURT: They think you went a little beyond.

MR. KAYE: No, your Honor, that's the point. The basic point is that Xerox wants to have us to go and have a lot more discovery than we want. They want us to go back and to start at a much earlier line. Xerox would like to have us rewrite our Complaint the way Xerox would like to write it, so that they can defend. What they are objecting to in essence is the

way we have marshaled what are, for the most part, undisputed facts, virtually all of which we have published in one form or another up to the time that the Complaint was filed.

They want the case to go on in the sense that they want us to start a long way back. We have marshaled it in a way -- we view that case in the way that we suspect Xerox doesn't like because they see potential impetus of adjudication of these issues.

Mr. Sobel said, well, making these admissions are the kind of things we do on the eve of trial, and he may be right. He may be right in the sense that the allegations when plead to are going to show that there is very little left by way of factual dispute.

Now, you asked whether there is any burden and whether there's any harm. There is absolutely none. Every one of what I call their data objections, where they say we have got too much detail, are drawn from published sources, whether a prospectus, we identify the prospectus. Where Xerox says that their patents are of material importance, their data on each one of

their motions, your Honor, is aware of our allegations concerning the consequence of Xerox monopolizing the skill and technology of xerography and enabling it to produce a broad product line of office copiers which is unmatched by anybody in any other kind of -- using any other kind of reproduction equipment.

There is no burden whatsoever on Xerox. What Xerox is afraid of is that they are going to have to admit virtually every one of those allegations and then by those admissions the Court is going to be able to see how quickly we are going to be able to reach the questions of legal adjudication.

We don't have to engage in discovery process if it's unnecessary. Moreover, when we get admissions, whether complete admissions of an allegation or partial admission of an allegation, the Court is going to be able to test Xerox' objections to our interrogatories and document requests and conversely any objections that we have with respect to theirs, because there is going to be a precision and a clarity which this Complaint is the first vehicle --

THE COURT: If that's the objective, would you accomplish the same thing by pleading a more lean complaint and promptly serving request to admit, detailing substantially what you have done in the Complaint?

MR. KAYE: It has been accomplished already. There is no function served, as I can see it, in saying that it ought to be done by way of request for admissions. These -- let me say this, in the first instance --

THE COURT: The virtue of that would be that if there is one particular item or several, I do not mean only one, but if there are some instances where a particular item poses a significant problem for them to admit or deny, significant from the standpoint of the rules, I don't think from the standpoint of having to make up their mind they would then come in and object to that request to admit and state why it either isn't clear or whatever the objection is.

This way I have got all these pages of what you seem to agree are efforts to pin them down to a lot of different things. That is why I asked Mr. Sobel at the end what he wanted

me to do. He says he doesn't want me to go through and pick and choose which ones are proper and which ones aren't. His point is that under the rule this is not a good complaint. So if he proceeded by request to admit, at least I would be more focused in rulings on what it is they had to admit.

MR. KAYE: I see what your problem is, and let me -- I think that I can address it. Whether you do it by way of request for admissions or whether you do it by way of complaint, in the first instance there is only in the most extraordinary case, that is where you get a complaint with gibberish do you have the power to strike an entire claim.

The rule, under which the motion is made, allows you to strike only those allegations which are redundant, immaterial, impertinant or scandelous.

Now, putting aside the FTC allegations, as you did, none of those -- of the allegations in our First and Second Claim are claimed by Xerox to be redundant, immaterial, impertient or scandelous. And their --

THE COURT: Of course, there have been cases, indeed they cite several where a complaint has been dismissed with leave to amend for not being a plain, concise statement of the essential facts.

MR. KAYE: Let me talk about the Atwood case. The Atwood case was a printed complaint of 46 pages which the lower court dismissed and the Court of Appeals for the Fifth Circuit said that the pleader -- first of all, we know that motions are disfavored, and as Professor Moore said, allegations of a complaint should not be stricken nor the claims unless they have absolutely no bearing, potential bearing on the case, so that the rule is a rule just as we have liberality on minimal amounts, likewise the pleader should be allowed to plead and represent his case.

The Court of Appeals in the Fifth Circuit in the Atwood case said yes, a pleader should be allowed to present the party the way he sees the case with the kinds of allegations that he thinks are essential, and if that -- then the complaint should be sufficient.

The Court of Appeals first of all revserved, affirmed all, that is let the pleadings stand and said, we have looked at the allegations, we have read the complaint from beginning to end and there is not an allegation in their complaint that should go out. It was 46 pages long.

The Court said, what is -- a short and concise statement is relative to the circumstances of the case.

Now, if it is 42 pages long that does not under any circumstances make it prolix. A prolix has a meaning, definition in the dictionary and legal, not of length but that it is diffuse, it's disorganized, it's incoherent and, therefore, it presents a problem.

Now, this Complaint is highly organized, it is coherent, it's averments are direct. They complain about precision of our allegations when precision is a desirable element.

Now, if we can say with proper objectivity or modesty, your Honor, we think this is a magnificent pleading, and you will think so, and the only test is when you read it. When

you finish reading it you are going to decide whether or not this pleading should go on. The questions of "law" your decision is not determined by what somebody else did in another case. It is obviously your discretion and your limited discretion is guided by the principle of the other cases and it's simply a question of addressing yourself to this Complaint and seeing whether it should stand.

My point is, if you do not agree with my characterization that doesn't mean you grant the motion because they bear the very heavy burden of showing that these allegations have no conceivable bearing in this case. We think that as you go through it, and you will see the building blocks of allegation of fact after allegation of fact so that we by allegation of fact, one after the other, demonstrate our conclusion.

Now, the pleading, and this as I come back to where you were talking about the request for admissions, first of all, if the pleading is not only sufficient but practical, if the constructive benefits of all of this is

in what is going to go on thereafter.

Now, Professor Handler, as we mentioned in our Brief, made a plea in 1951. He was addressing himself to the generalized government pleadings in antitrust cases and then the open-endedness of discovery, and he said it's a terrible burden on defendants because it makes protracted cases and we have got to use our ingenuity to simplify charges so that we can shorten the protracted proceedings, we don't have to have such protracted proceedings and we can get to adjudication. We say the same thing here. We say that Xerox is asking for a lot more discovery and we should make it more generalized and do it all for discovery.

That may be Xerox' desire insofar as how they defend the case but it certainly is not SCM and it is not for Xerox to rewrite it.

Now, the benefits, and as we say in the Brief and I say it to you right now, I am prepared to go through every single one of these allegations, the 50 paragraphs or subparagraphs of which they identify and of which they complain and explain to your Honor precisely

why that allegation is an essential allegation, why it is material and why requiring pleading by Xerox to it will help move this case along.

I will use one relating to Horizons, paragraph 26, if your Honor will take a look at the Complaint, during 1960 -- I can give it to you. We have just alleged that Xerox following its Battelle Agreement in 1956 adopted it and has since followed a policy of strengthening its patent position, and into paragraph 26, during 1960, and implementing that policy Xerox entered into agreements with Horizons.

Your Honor sees that. This was material that the Chief Executive Officer has stated publicly on Xerox' behalf was the reason why they acquired Horizons.

Now, when they admit that --

THE COURT: As long as you pick that example, that illustrates what I take to be part of their problem. The first couple of sentences sort of free of editorializing. They entered into agreements with Horizons, all right, they should have no trouble saying yes or no

to that one. But then when you say they entered into an agreement because as their Chief Executive Officer said, and you give one quote, now inevitably you don't enter into an agreement yes or no because of one fragment of what your Chief Executive Officer said, isn't that very clear?

MR. KAYE: No, let's delete quotes--

THE COURT: That may be part of the reason --

MR. KAYE: Let me address myself to your question.

Let's first delete the quotes and let's say that we allege as follows: Xerox entered into these agreements because Horizons had done some work independently in xerography and had access to certain patents that Xerox wanted and which it ultimately acquired. That would be an allegation that bears on the entire question of violation of Section 7 and Section 1 and so forth. And they would have to allege, an intent is a factor here also, and the reasons or the purpose, however you want to call it, they would have to -- there is no objection to

that as a pleading. They would have to plead to it. We are simply relying insofar as Horizons are in this, on the very reason expressed by Xerox.

Now, if as a matter of pleading in terms of Horizons they say there were other reasons than they admit but they aver there were other reasons.

However, so that there is no pleading problem here. The pleading problem is from Xerox' point of view that they don't want to face right away -- when I say right away, in this case right away -- the difficult substantive problem, that expression, that admission poses for them and that is true with respect to all, to many of these assertions.

Let's go back to paragraph 12, which they object to. This was -- incidentally, we have all of this annotated, every one of these, and their annual reports, and there is no problem for Xerox to know where these came from, and if there is any problem they have not expressed it to us but there is none and obviously we are in a position to furnish it.

It's not a -- we could have put it in the margin.

But in paragraph 12, there is no problem for them to plead to that. What their problem is is that that admission goes an enormous way in this case because in that statement that he made there was a recognition that plain paper copier was a product differentiated from others and that goes to one of the market definition questions, it goes to the -- not only to the minimal existence of competition from plain copy copier but conversely the monopolistic or the dominate position that Xerox had, and the reason they don't want to plead it is they don't want to have to get to these issues right away.

Why should we have to wait for request for admissions and then we are going to have objections and we are going to have a lot of objections on these documents and interrogatories when there is no problem here -- problem in a pleading sense -- to any of these pleadings. The problem to Xerox is a substantive one.

Now, I think that -- as I say, your Honor,

I don't think that we should spend the time here where I take each one of these paragraphs. I think that my points, as I have made them here and as we made them in the Brief, will be perfectly apparent to your Honor when you begin at paragraph 1 and end at the end of the First Claim.

The data, when we get into all of these allegations that they object to, page 6, what I call the data allegations, as you go right on down through, they are going to admit them all. They are in different categories. You go to page 19 where we set out their product line, and all of those are essential allegations, that is what the first generation copiers were, each of them, the second generation copiers, they all relate to the ultimate substantive allegation which is along the following lines:

Xerox acquired this technology from Battelle and Horizons and from others and by about 1961 they had complete and total control of the skill and technology of xerography and then having that and having recognized that monopoly power over that skill and technology

they have had the betterments and improvements and they have been able by being free of any competition in skill and technology and then, therefore, in the market place to build on top of that foundation to broaden their product line, to get an enormous technological lead over everyone else.

Now, in order to understand that, these stacks make these points very clearly and if we go right down through what they have object to, they object to paragraph 71.

What possible objection as a pleading matter could they have to paragraph 72 or to 74 or to 75. This is what Xerox has said about this. That takes that out of the case in a sense that these are from now on known facts insofar as testing discovery.

The law which I have not touched on, and which is touched on in the Brief, Professor Moore, as I mentioned, says as a pleading matter it shouldn't go out if it doesn't have a possible bearing. The concept in the Federal Rules is that we should not be either on the one hand where you have just a bear pleading or

on the other hand where you have very specific pleadings, we should not be attempting to prune allegation after allegation. That's what Judge Feinberg said in the Atlantic City case, that the Court should not have to be engaged in the pruning process.

As far as the question of dismissing the entire claim, there's absolutely no basis for that. As Judge Feinberg said, and referring to the Attorney General's Committee report in antitrust cases, specificty is highly desirable, highly desirable.

The antitrust -- the Attorney General's Committee report urged that much greater specificity, said that antitrust cases become investigations where the pleader doesn't get specific with these charges and the problem arises because of the liberality of pleading and because of the liberality of discovery, in effect with that a very specific pleading you don't have the same kind of anchor from which you can test all of the additional discovery matters.

Judge Moore in the Segal against Gordon

case, dealing with Rule 9b's requirement that fraud be stated with particularity, makes our point in that situation.

Now, there is no requirement in the Federal Rules that an antitrust charge, even though as here in Section 1 and 2 are both civil and criminal, need be stated with particularity. The rules requirement particularity with respect to fraud. We say that the rules do not in any way forbide particularity.

What Judge Moore said was not only is this requirement on fraud, that is he stated with particularity, desirable to prevent -- but that fraud is, but more particularly he said, fraud is a serious charge and when a man, the plaintiff stands up and makes a charge of fraud, he should be prepared to state with the greatest specificity and particularity at his command what he is charging the defendant with.

Now, how can Xerox object? If we are prepared to state with specificity and particularity facts and the reason why we reach these conclusions -- your Honor, I would

like to pass to what I consider to be by far the more important question and that is the -- not important in the pleading sense but the importance in the case of the Federal Trade Commission report. I think on your Honor's review that -- of the Complaint as to these data -- so-called data allegations and the quotation allegations that you will find that there is no basis at all, arguable or otherwise, for doing anything to the pleading and that they ought to go ahead with it. They can't complain about quotations, they can't complain we are being more precise than less precise.

The only question is materiality. Let me put it this way, Xerox claims immateriality and prejudice as to the first two paragraphs of which they complain, which is 103, 116. I think that Mr. Sobel has indicated that there is no claim by Xerox that they may not be immaterial. They may have had a relation to the question of whether Xerox did shortly thereafter make these license offers.

103 is laid in context in the Complaint

immediately preceding the offer which followed in 19 -- in early 1970, and Mr. Sobel said well, it may or may not have been a reason, but that's something that has got to appear and we don't -- that has not come out yet. So there is no basis to strike it as being immaterial, likewise 116, it immediately precedes the offers, the so-called license offers of 1973.

Judge KirkPatrick in one of the electrical equipment cases said that there couldn't possibly be any prejudice in the pleadings to a reference to a pending Government action.

Judge Feinberg in the Atlantic City case said that where the reference to a pending action may have a bearing on -- any possible bearing, it shouldn't be stricken from the pleading. There was a statute of limitation question. So that as to these first two paragraphs in the context in which they are pleaded, there is no -- we see no possible basis for striking those matters from the pleading.

It may be as to those first two paragraphs that after we have had our discovery, those

points come out of the case as facts and if they come out of the case they will come out of the case. But they may very well be in the case and so there is no reason to strike them.

As to paragraphs 170b and 170c --

THE COURT: Before you move on. Is there an allegation somewhere in the part 4 that the offer of licenses was prompted by the Federal Trade Commission action?

MR. KAYE: If it's not direct it is certainly an implication that one of the -- at least a reason based on the known facts -- let me take it from 103, in sub-section 4, if it is not expressed it certainly implied, that a reason -- we don't know whether there were any other reasons that prompted Xerox to make that offer was the commencement of the investigation.

We say that Xerox should have made their offers back in ---- it should have granted the offer back in 1963 as SCM requested when Xerox itself knew that it had monopoly power and had acquired it and in effect it was only by being prompted by a Federal agency some seven years

later that Xerox made an offer and then they made an illusory offer.

THE COURT: I was just struck looking at this that that allegation doesn't seem to be set forth, that what you have done is set forth facts that may or may not -- when you say do prove that allegation, but the allegation is not here, and what's here is the evidence.

MR. KAYE: No, I think just simply an allegation of fact, the allegation of fact, not evidence. The allegation of fact is that in the December of 1969 the Federal Trade Commission commenced a proceeding. The allegation of fact is that in 1970 Xerox in effect for the first time offered to grant a license on a -- for plain paper, on plain paper patents.

Now, the question is, was there a relation between the two, and that is yet to be known. We don't know that.

THE COURT: If you are not alleging that, and I don't quite see why you wanted to plead it.

MR. KAYE: We are -- what I am saying

is that we certainly do have reason to believe, based on the coincidence of those two facts and the other facts where there had not been any offers, that at least a reason, if there were any more we don't know, for that offer was the commencement of that investigation.

The staff of the Commission who have had access to other documents have made that, as far as I understand, made that explicit in the sense that they have simply said that these offers have been a consequence of that.

We did not have, when we plead this action, the paper on which we could make that -- if that is a charge, that charged directly, and we would leave to this moment to discovery to see whether or not it had any relationship.

Let me say this, your Honor, before I pass on this particular point, and I think I know what is troubling you. We didn't say in 104, for the reason -- because of what occurred in paragraph 103, Xerox offered those licenses. And I get the impression if we had said that that you would have no problem with those allegations.

THE COURT: I don't know whether I would or not. But in looking at it --

MR.KAYE: I sense that is the problem you have, and one of the reasons that, if I can try to think back retrospectively, that we did not do that, is that not knowing there were other reasons it would be premature at this point for us to try to speculate as to all of the reasons that they had. But I think it is again --

THE COURT: What you are really saying is that, at least as to this phase of the case, you are not really sure whether this set of facts supports an antitrust cause of action or not but you want to plead these facts and then go through some discovery and then see if you are able to make the allegation that will support a cause of action.

MR. KAYE: No, your Honor. The only question is whether -- if we eliminated 103, putting aside any statute of limitations question. It has a value from the statute of limitations point of view in any event just as in Atlantic City, they have not plead yet so I

don't know, but we from 104 on, there is no -- we have no problem. We think that we have stated claims sufficient to, insofar as parts of violations of law are concerned.

The only question is the -- the only small question, if that is the right way to speak, as Mr. Sobel said, is whether or not the Commission action had any bearing -- was a reason for making the offer.

Now, Mr. Sobel said even if it were it is immaterial. Now that I disagree with.

THE COURT: Well, I didn't understand him to say that. I thought his point was that even if it was material as a matter of evidence it's an improper portion of the pleading.

MR. KAYE: I did not understand him in that way. I thought that he said that even if it were the fact, the fact --

MR. SOBEL: I said it both ways. I said it is in the alternative.

MR. KAYE: I don't think 103 is by any standand an allegation of evidence. It is an allegation of fact. On December 1, 1969 an action was commended by the Federal Trade

Commission against Xerox, assuming -- that would be the fact. Likewise, the paragraph 116.

But in terms of the overall principles, the ground rules of what the Court should be doing or not doing, which we referred to before, the thing that the Court should not be doing, the thing that one of the -- one of the purposes of the Federal Rules is that the Court should not be getting stuff at the pleading stage in trying to pick out each particular allegation, whether this one should be in or this sub-paragraph should be out.

As Judge Feinberg said, summing up all of the cases, the Court should be, at the pleading stage, it is not to prune one allegation or the other or perhaps if your Honor -- or if we felt -- we ought to say, on information we believe that one of the reasons that SCM believes that this was done, that these offers were made but because of the commencement, as we do believe, it is not necessary for the Court to do that and try to patch up a small pleading point.

You understand, your Honor, I think that

it is perfectly proper for us to simply plead to facts. The existence of the action and then the offer of the license. It's enough for us later on to do it, but even if I'm wrong is what I am saying, this is of no consequence.

The question of prejudice on this, there is none now, certainly. There is no prejudice. These -- this is all public information. No -- Xerox is not suffering any prejudice from the existence of this allegation as Judge Kirkpatrick said and, therefore, there is no point in doing anything striking, certainly not at this point.

On paragraph 170b and paragraph 170c, these allegations are, of course, highly pertinent to our equitable claim because they are additional reasons why this Court and why SCM as a matter of equitable relief should be entitled -- assuming that its claims are correct, needs to have equitable relief.

We are prepared to prove that there is -- taking 170b, the first sentence, we are prepared to prove that there is no possibility that there could be any permanent injunctive relief against

Xerox if the staff of the Commission is correct for eight or ten years, so that that bears on the question of the extent to which in a private actionyou ought to be -- that this Court ought to be active.

It also bears on whether or not SCM is entitled to preliminary and permanent relief to the standards that have been described by the Court of Appeals in the A&P case, the Gulf and Western case where the Court of Appeals said where there is a private action and where the matters are of enormous public interest, we will apply the same standard in that private action on injunctive relief as is applied in the government action. The government can't do everything, and they can't do it sometimes as well as the private parties.

The paragraph sub (c) are allegations which bear on the equitable relief aspect of this case because they show in the first instance what Xerox, as we believe, is going to fight that case down as long and as hard as it can, which is its right.

That case is not going to have any impact out in the marketplace insofar as it's considered

to be a nuisance, that they are going to do everything they can, not only on the merits, but on jurisdictional grounds to see that that case is not --

THE COURT: Focusing on that 170(c), is all that in explication of your allegation that you will suffer irreparable injury?

MR. KAYE: The need for -- it's an explication of the need for expeditious, equitable relief, and in terms of irreparable injury, to the extent that it relates to irreparable injury, it means that Xerox is not going to soften its policies in any way to make it, and, therefore, yet, but it is primarily -- all of the -- both (b) and (c) also relate to our claim that, or our position in this case, that the second claim: that is, as to the damages, ought not to be -- ought to be defered until the questions relating to prospective relief are -- have been completed.

That is a subject we touched in our conference last week, and it's a subject that I hope your Honor is going to have time today to continue. You indicated a possibility that after this argument we could go and talk about that, but --

THE COURT: All right.

MR. KAYE: Now, the last portion of the attack by Xerox is the most interestingpart of it insofar as the FTC, and that is, paragraphs 34(a), 34(b) and 40(c). There we have given specific attribution to the statements. There is no question but that an admission against interest in a pleading in another case is admissible. There is no question about that.

If you take 34(a), let's forget the attribution aspect for a minute, we could allege, and it would be an allegation of fact simply, that a primary factor contributing to Xerox's present market position is patents issued by the United States Government.

Now, that allegation of fact insofar as this case is concerned is very critical. Now, Xerox also complains about that allegation there there is no attribution, it was made once elsewhere in a different context, and as part of a different argument. What they really -- what they are objecting to, and I just want to take a moment on this point, is a very, very important substantive point. Xerox's view is that whatever its market

position, and let's assume for purposes of my discussion, what Xerox, we expect Xerox will contend it has a quota, "30% market", position when you look at it from a marketing point of view, and let's put aside our view that a proper look at the market is the skill and technology of Xerography or another properview of the market is plain paper office copiers, but we will put that aside. Let's assume it's 30% as we anticipate they will say.

They say that their market share: that is, their competitive market share, is a result -- a primary factor in achieving and maintaining that are patents. What are patents? A patent under the Patent Act is a negative right to exclude others from using, making or selling the invention described or covered in the patent.

Now, they have 1700 patents. Some of them are now expired. If, as they have stated in their answer to the Federal Trade Commission, that a primary factor in achieving their market share has been their ability to exclude others from using, making or selling the inventions described in 1700 Xerographic patents, what they are saying is not a question of excellence of anything, not

a question of their own ingenuity, but of their ability to stop people from using inventions.

Now, that's not yet illegal in terms of our view because there may be circumstances in which under the monopoly law they do, but what it does then raise is how did they acquire those patents, how did they acquire the ability to restrain, exclude and restrain others from using and making those patents. Then we come into the questions under the antitrust laws. Where the acquisitions from Battelle and Horizons the foundation of all of this technology, some 200 patents, including the basic patents.

SEction 7 says there will be no acquisition of assets which may have the probable effect of substantially lessning competition.

Xerox obtains them from Battelle and Horizon and now has the right to exclude all others. Xerox, in terms of Section 1 of the Sherman Act, enters into numerous agreements with many other companies whereby they give Xerographic technology to fields not involved in office copier and get grants back by which they get back --

THE COURT: I don't think they are at this

stage disputing you have the right to plead that theory of an antitrust violation. They undoubtedly will want to be heard at the appropriate time, but I don't think that's their quarrel with the complaint. They find it, I suppose, just gratuitous to add the reference that this particular quote came in an answer to a complaint by the FTC -- supposing in the course of a trial your evidence about the FTC doesn't come in?

MR. KAYE: Then it doesn't come in, the question of whether it's been pled is of no prejudice whatsoever. The question -- we are not introducing the evidence. If we were introducing the evidence and the Court found that the statement was an admission against interest, we would be entitled to introduce the answer. At this point in time, our specificity, not only by way of quotation, but by reference to Xerox -- to the Commission, has no problem. And the reason I say that is they object to the allegation, even though where it's contained elsewhere, 4277 and 137, where we don't make any reference to the fact that it was pled in the Commission proceedings. My point

and the reason I spent this time on it, is that they really -- they are really not concerned about the fact that we referred to the Commission proceedings. They are really concerned about trying to get out of this pleading. This -- what we consider to be highly material allegation.

Now, at this juncture of the case, your Honor doesn't have to agree with us, quite obviously, that it's even material. The point is that we as pleaders should be allowed to -- and the authorities all support us -- what we have done, we should be allowed to plead what we think is material, and I have taken a good deal of your Honor's time, and I think that it's been in consequence of an effort by Xerox here not really to avoid any problems or burdens in terms of pleading because I don't think they have any. They can either admit, or they can deny, or if they have an allegation, they can deny or they can admit so much of the allegation and deny the rest. There is no -- there are no pleadings here of so-called -- with third party witnesses, so there is any denials of knowledge or information. This is all Xerox material. As a pleading matter, there is no

burden.

The reason we are here is that Xerox does not want to have to face up to -- at the very beginning of this case-- to some of the real problems that they have, substantive. What they would like to do is go back to a general conclusory pleading which opens the field as wide as possible and to start this case over --

THE COURT: In those terms, what do they do with 35 where it says: nothing contained in the Patent Act provides antitrust immunity to Xerox with respect to the methods employed by Xerox to perfect and maintain a monopoly, is that a yes or no?

MR. KAYE: That's a legal conclusion, your Honor, and --

THE COURT: Even if it's a legal conclusion, is it suscaptible to -- I assume you are looking for the "yes"?

MR. KAYE: The answer is they will deny that becaue they plead the Patent ACt provides an immunity and they so pled it in the Commission proceedings. That happens to be not an allegation to which they make no objection. It happens that to all of

the concededly legal allegations and general conclusory allegations, whether a mix fact of law or law, or however you want to call it, they have notobjected to any of those.

Any of the pleadings, as we go through, as I go through, any of the pleadings that looks like it's going to be easy for them to deny generally, they have made no objection to.

THE COURT: Except, of course, they have said it's not a pleading that is consistent with Rule 8. I don't think they feel they have given me every -- this one may not cause them trouble. They can deny it, but I am looking at it as whether that really is the type of an allegation Rule 8 contemplates.

MR. KAYE: I think it is because it gives them notice insofar as legal contentions are concerned exactly where we -- that is, where the plaintiffs stand on the position of whether or not the Patent Act provides any antitrust immunity with respect to the methods, that is, the method by which they acquired -- they have -- we have taken the stand on that and they can take a stand on that, and they have taken a stand on that in another

action.

THE COURT: Is the trier ultimately to decide yes or no who is right on that allegation?

MR. KAYE: That's a legal conclusion for the determination to be made by theCourt.

THE COURT: As a yes or no proposition? It just doesn't strike me that it lends itself to that type of resolution. I would imagine people would be debating for years whether there is anything in the Patent Act that gives some immunity --

MR. KAYE: If you read the allegations, nothing in the Patent Act provides antitrust immunity to Xerox with respect to the methods employed by Xerox to perfect and maintain an economic monopoly over the manufacturing and marketing of plain paper copiers. That's a conclusion which is going to be -- may be debated in this case, maybe Xerox will admit it. Maybe Xerox will agree that the Patent Act -- take that out of the case. That they are not going to take any position in this case that there is any provision of the Patent Act that bears on the question of the legality or illegality of perfecting

and maintaining an economic monopoly over the manufacture of plain paper copiers.

Now, in the FTC answer, the Xerox pled not only legal conclusion, but they refer to cases, they referred to the Automatic case back in 1951 in the Supreme Court, saying that the aggregation of patents in and of itself was not illegal. Critical legal issues as to when an aggregation of patents is legal or is not legal.

Again, the pleading point is, is the Court going to exercise discretion to interfere at this stage with the precise manner in which the plaintiff desires to present its case and tells the defendant the kind of road he is going to follow to bring this case, in the plaintiff's eyes to judgment, or are we going to go sentence by sentence, comma by comma, or clause by clause to perhaps improve it, perhaps prune it.

Our view is that the Court should not grant any aspect of their motion, that we should get a pleading, we should get their counterclaims, that the issues drawn by thepleadings are going to vastly enhance the opportunity of the parties and the Court to go on with all of the other

issues that are going to be in the case.

MR. SOBEL: May I make some brief response? I don't think it's necessary for me to address the many points Mr. Kaye touched on, but in the first place, it's still true that the complaint violates Rule 8. In the second place,the cases have stricken claims forever inclusionof evidentiary detail.

In the third place, the inclusion of this mass of evidentiary detail is almost in every case redundant. Take a look at paragraph 42 of the complaint, and this is characteristic of the way the whole pleading was drawn. The evidentiary detail follows and expands upon thepleading of the conclusions or ultimate facts.

In the fourth place, the inclusion of this evidentiary detail, this massive stuff which imposes -- which does impose a burden on us, which I won't go into it again because I covered it the first time, it doesn't simplify anything, your Honor.

To take the paragraph on Horizon, which Mr. Kaye alludes to in his papers and mentioned just before, even if our chief executive said this,

as your Honor commented, it doesn't dispose of any issue with respect to our relationship with Horizons. We still have to investigate and SCM will have to investigate if it's to do its job, all the details of why we entered into Horizons, how we first came in contact with them, what they did for us, what the subjective importance or objective, if you make it objective, of the work they did, any patents that they generated, the fact that they were an arm of our own research activity, the inclusion of this detail simplifies nothing, and on simplification, a reference to Professor Handler's comments in 1951 are out of place, your Honor.

I don't presume to speak for Professor Handler, but to go from a comment about simplifying the charges to filing this complaint with all that evidentiary baggage, could not have been what -- it's a long trip from what Handler said to this complaint. And the simplification process is complicated by the rules for discovery and pretrial procedures, not for pleading.

I just have a few more points here, your Honor. With respect to our motion to the

Commission, there is nothing to say except that an examination of it will reveal that we did not ask for any of the evidentiary detail that we are now challenging. I could do it one by one, but I don't see any point. We don't ask for any of the statistics, quotes, witness' statements or the like.

And we still maintain that the proper course for the plaintiff here is to serve a proper complaint and then proceed accordingly -- in accordance with the discovery rules so that we can respond in an orderly manner and register any objections we have.

With respect to Moore, which Mr. Kaye continues to rely on, I can only refer your Honor to the quotations which I read in my papers which contemplate the striking of antitrust complaint for evidentiary detail, and that was 8.17 (3), page 1772, and 8.13 at 1703-04, and the Nagler case is the law in this circuit and evidentiary details with discovery process under Nagler.

THE COURT: It says there -- I forgot the word - disfavor or something like that, but that is

not a striking of the complaint for detail --

MR. SOBEL: In that case, you are correct. What happened was that a district judge threw out a complaint because it was insufficiently particular and the Second Circuit reinstated it saying it's not a good idea to include this evidence, that the district judge seems to think it's required, and, indeed, it's a bad idea.

We are quite willing, incidentally, to plead to SCM's ultimate facts and theories, we are not trying to avoid pleading, and with respect to the references to the FTC, for example, if some of those ultimate facts pleaded in there are appropriate for inclusion in a pleading, we will respond to them. Our point is that the reference to the fact that there is an FTC investigation and complaint doesn't advance the cause any, and if it does, if it has any relevance, it's far outweighed by the prejudice involved and the reference to Judge KirkPatrick leads nowhere because Gottesman in the First Circuit -- Gottesman in the SEcond Circuit, and the International Showcase in the First Circuit, recognize that civil actions can be

prejudicial.

One more point on the motion for more definite statement, your Honor, and then I will sit down. Besides the fact that we do not now know whether the patent claim, the 006 claim will be stayed, I should point out, and I didn't, that Blonder-Tongue works one way. If the outcome is favorable to Xerox, SCM has not indicated that it will stand by that decision. Maybe it will, but I would be interested in hearing whether it will.

Moreoever, there is a different infringement question here, your Honor, SCM's machines are not the same machines as Dennison has, and proof of infringement will not be disposed of by the infringement issue in the Dennison case.

THE COURT: I take it his point was that to the extent that validity is adjudicated, we will know more than we know now.

MR. SOBEL: My point is, your Honor, because of these different issues and because of our likely counterclaim, there is no basis even for staying this claim, and since that issue hasn't even been faced, it's inappropriate not to

require them to give us some kind of rudimentary pleading which indicates the basis of their claim.

MR. KAYE: Unless you wantma to, I think our papers cover their point.

THE COURT: I think they cover --

MR. KAYE: The only point on the infringement on the third claim, we don't raise the infringement issue, as your Honor pointed out, it is only as to the validity point, so, therefore, the other proceedings are going to have a direct bearing.

THE COURT: May have.

MR. KAYE: They are going to havea direct bearing. If Xerox wins, one, two or three lawsuits on 006, quite obviously there is going to be a question as to whether as a practical matter we are going to pursue it -- but on the pleading -- forgive me, the ATwood case, for example, 46 page complaint, considered it was a short and plain statement, fulfilled the 8th requirement. I came home, my wife is a lawyer, I told her that Xerox made a motion against this complaint and because they were complaining about the 11th, and she said: well, there are a

lot of things that you had to say, maybe they did a lot of thingswrong so you took time. Maybe we could have said it in two hundred pages, what is prolix, what is long depends on the circumstances of the case. That's what the Atwood case is, and the bottom line as far as I can see, your Honor, will read the complaint and in the light of these guide lines, determine the point.

THE COURT: It is a fair question and I will endeavor to do it.

I take it that counsel do want to meet and discuss what we left off last time as to some sort of scheduling, looking toward a resolution of the preliminary injunction.

MR. SOBEL: I thought you were going to address discovery.

THE COURT: I thought you do want to meet in chambers, is that correct?

MR. KAYE: Yes, your Honor, on my point would be on not only thepreliminary injunction point, but the other points that you raise as well.

THE COURT: We will do that.

(Court adjourned.)

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MEMORANDUM IN SUPPORT OF PLAINTIFF'S MOTION FOR SEPARATE TRIAL AND ANCILLARY RELIEF

UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,	:	
Plaintiff,	:	
-against-	:	Index No. 15807
XEROX CORPORATION,	:	
Defendant.	:	

SCM'S MEMORANDUM IN SUPPORT OF ITS MOTION FOR SEPARATE TRIAL OF THE ISSUES OF XEROX'S ALLEGED VIOLATIONS OF THE ANTITRUST LAWS, AND FOR ANCILLARY RELIEF.

This memorandum is submitted under seal* in support of SCM's motion for separate trial of the issues of whether Xerox has violated each of Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act; for a stay of proceedings with respect to all other issues, claims or counterclaims in this action pending such separate trial; for a stay of proceed-

* This memorandum and its exhibits contained in the accompanying binder are submitted under seal because pages II-10 through II-21 contain facts obtained from certain documents which have been produced by Xerox to SCM, and which are presently covered by the "tentative" confidentiality agreement between the parties.

ings with respect to SCM's Third Claim and Xerox's First and Second Counterclaims on additional grounds under the Blonder-Tongue* decision; and for scheduling May 1, 1974 as the commencement date of the separate trial or, in the alternative, as the commencement date for a hearing on SCM's contemporaneous motion for a preliminary injunction.

The issue raised by these motions is how the further proceedings in this action will be structured in the interests of justice, taking into account (a) SCM's legitimate interest in securing the most expeditious adjudication of the preliminary and permanent equitable relief requested by its First Claim of its Amended Complaint pursuant to Section 16 of the Clayton Act (15 U.S.C. §26); (b) Xerox's claimed right of trial by jury of any legal issues raised by SCM's Second and Third Claims of its Amended Complaint pursuant to Section 4 of the Clayton Act (15 U.S.C. §15) and any legal issues raised by Xerox's three patent counterclaims; and (c) the most efficacious and economic use of the time and resources of the Court and the parties.

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* Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313 (1971).

Memorandum in Support of Plaintiff's Motion for Separate Trial and Ancillary Relief

POINT I

THE VIOLATION ISSUES SHOULD BE SEVERED AND PROCEEDINGS AS TO THE OTHER ISSUES SHOULD BE STAYED.

The relief sought of a separate trial (before a jury because of Xerox's timely jury demand) of the issues of its alleged violations of the antitrust laws, and stay of all other proceedings, is, we think, the most practical method by which all three of those objectives described on the previous page can be accommodated and achieved.*

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* We consider that many of the cogent reasons, including the great public importance of this case, (Gulf + Western Industries, Inc. v. The Great Atlantic & Pacific Tea Company, Inc., 476 F. 2d 687, 693 (2d Cir. 1973)) supporting the relief sought by this motion, also persuasively demonstrate that this case fits into the narrow category of extraordinary situations involving "imperative circumstances" permitting the Court to try the equitable claim first, without a jury, under Beacon Theatres, Inc. v. Westover, 359 U.S. 500, 510-511 (1958), and its progeny.

See Dairy Queen, Inc. v. Wood, 369 U.S. 469, 472-473 (1962); Katchen v. Landy, 382 U.S. 323, 338-40 (1966), where such imperative circumstances were found to exist so that an important federal statutory scheme of procedure and relief would not be defeated; Ross v. Bernhard, 396 U.S. 531, 537-38, 539 (1970); and Rachel v. Hill, 435 F.2d 59 (5th Cir. 1970); cert. denied, 403 U.S. 904 (1971), where in the circumstances presented, the Court preserved the right of trial by jury by refusing to impose collateral estoppel.

Nevertheless, we presently consider that that approach need not be followed here and the approach proposed by SCM's motion, utilizing, as Beacon Theatres suggests, the "flexible procedures of the Federal Rules" will both fully preserve Xerox's claimed right to trial by jury of legal issues; and SCM's claimed right to the most expeditious adjudication of its claims for preliminary and permanent equitable relief under Section 16 of the Clayton Act; and with the greatest possible measure of economy, convenience and the avoidance of delay.

SCM's legitimate interest in the earliest possible adjudication of its claims for preliminary and permanent equitable relief stems from the urgent public and private importance of those claims. Those claims concern the nature and extent of the competition, if any, that will exist in future years with respect to the skill and technology and the manufacture and marketing of plain paper office copiers, and whether the users of plain paper office copiers and the public generally will have the benefits of effective competition.

If there can be any doubt concerning the existence of Xerox's enormous technological, manufacturing and marketing power with respect to plain paper office copiers and its ability and intention to enlarge that power in the coming years, it is fully dispelled by Xerox's own business plan in recent years, including its most recent 1100 page 1972 Long Range Plan.*

Based on a comprehensive study of those long-range plans, it is evident that Xerox's manufacturing and marketing power today provide enormous barriers to entry and to effective competition and many of those powers continue to grow each day. In the years to come, Xerox will be even more formidable than it is today if it remains unchecked until

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* That 1972 Long Range Plan and other related documents will be handed up to the Court at its request on the hearing of this motion.

final adjudication of relief, if it is ultimately determined to have violated the antitrust laws.

The possibility must be recognized that absent some effective relief from the Court within the reasonably foreseeable future, Xerox may maintain or increase its dominance in the manufacture and marketing of plain paper office copiers and that only IBM -- if anyone at all -- will be engaged in the same kind of activities.

In a recent brief position paper presented to the Department of Justice (and furnished herewith as Exhibit 1 to this motion), Control Data Corporation, Honeywell, National Cash Register Company and Sperry Rand Corporation addressed themselves to the same problem of the effects of the alleged monopoly power held by IBM in the computer industry. With regard to the pending Government action against IBM, those companies emphasized the need for severance of the issues of violation from the issues concerning permanent relief. They urged severance and prompt trial of the first issue: violation. They further emphasized that effective interim relief is needed soon, because otherwise, by the time permanent relief is mandated after trial on a finding of violation and appeal of all issues, the permanent relief ultimately granted may be wholly ineffectual because of the increases in IBM's power and market share during the protracted interim of delay.

Those four companies also expressed strongly that relief prior to permanent relief (assuming a violation were found to exist) should be both "structural" and "behavioral", including inhibiting further growth of IBM's power; mandatory licensing of patented and unpatented computer technology on a reasonable royalty, nondiscriminatory basis; and sale of IBM unique products to IBM's competitors. They urged the necessity of such interim relief to abate the effects and prevent the further growth of the illegal monopoly power pending the effectuation of permanent equitable relief.

Conversely, they also pointed to the great saving of time and effort for the court and the parties if it were initially determined on the severed issue that there were no violations of law.

The same considerations advanced by those four major companies apply with equal force here. Indeed, the very determination by a jury that Xerox has violated the antitrust laws would by itself, without more, constitute the first important step towards stimulating competition. Potential and actual competitors would then have the certain belief of judicial action in fashioning and imposing preliminary equitable relief; and the reasonable expectation of permanent relief, ultimately to establish full and fair competition and to

nullify the effects of Xerox's monopolistic or anticompetitive acts. Expanded investment and competitive activity can thus reasonably be expected. Short of a jury determination of violation, a determination by the Court of likelihood of success on a motion for preliminary injunction should produce a good measure of those same effects.

It cannot be seriously disputed by Xerox, that deferral of pretrial discovery and other proceedings relating to the issues of SCM's claim for monetary damages due to Xerox's past acts will substantially shorten the time required to bring the issues of violation to trial. Of equal force here, as applied to SCM's claimed damages, Xerox's counsel pointed out in connection with its motion to stay Litton's antitrust claims that "exhaustive discovery will be required to determine whether and in what amount Litton's subsidiaries have been damaged by the alleged monopolistic practices of Xerox" (par. 9 of the affidavit of Stanley D. Robinson, Esq., dated February 7, 1973).

In addition, if violation were determined after separate trial of the severed issues, there could be an immediate appeal under 28 U.S.C. 1292(b) to the Court of Appeals, and if appropriate, to the Supreme Court, contemporaneously with further proceedings in the trial court with respect to preliminary injunctive relief, permanent injunctive relief and monetary damages.

We put aside for later discussion in Point II the consideration of how speedily the severed issues of antitrust violation can be tried before a jury and whether they can be tried, as SCM believes, by May of 1974. We make that demonstation in Point II by discussing and showing that under established principles relating to market definition in antitrust cases, as applied to the kind of facts already known by Xerox and disclosed in documents already produced to SCM, Xerox is not entitled to the extraordinary and protracted pretrial discovery as to market issues which it seeks. Such discovery may properly be limited under legal principles applicable to market definition and under the Federal Rules, thereby permitting trial by May of 1974, assuming the diligent efforts of both parties; or if not by then, at least by some time in the reasonably foreseeable future.

As to SCM's Third Claim and Xerox's First and Second Counterclaims, all raising issues of the validity of the Middleton-Reynolds '006 patent, there is no pressing private or public urgency in their adjudication. In its answer Xerox has alleged that since May, 1970 SCM failed to perform its obligations under the 1968 '006 patent license (par. 75); and that since December, 1971 SCM has infringed that patent (par. 83). Xerox admits that prior to the date of service of its answer on November 12, 1973, it did not commence any action against SCM for breach of contract or infringement (par. 64).

Xerox's Third Counterclaim for alleged infringement by SCM coated paper office copiers is based on another Xerox patent issued about seventeen months ago on June 27, 1972 (par. 87) on an application originally filed nineteen years prior, on September 15, 1953; and which was acquired by Xerox from Horizons by assignment in 1960 (see par. 21 of SCM's Amended Complaint).

Accordingly, it is evident that there is no pressing urgency for proceedings with respect to the patent matters raised by SCM's Third Claim and Xerox's Counterclaims, and that those counterclaims are nothing more than a litigation response or a "reflex reaction" (as that term is used at page 3 of this Court's memorandum decision dated March 30, 1973 in the Litton case) to the antitrust claims advanced by SCM. As expressed by SCM in its original complaint of July 31, 1973, litigation proceedings with respect to the '006 patent and any such patent counterclaims now advanced by Xerox, should be deferred to avoid the substantial burden and expense which would otherwise be imposed on SCM and the Court, and which may delay proceedings to adjudicate the principal antitrust claims in this action.

Moreover, if SCM's claims of illegality are upheld as to Xerox's purchases of patents (including the Middleton-Reynolds '006 patent from Battelle, and the other patent from Horizons),

they will be rendered unenforceable and the parties' efforts and expense will have proved a total waste.

The Federal Rules of Civil Procedure state the objectives and provide the procedures which support the requested severance, stay and prompt separate trial.

Under Rule 42(b) of the Federal Rules of Civil Procedure, the Court has power "in furtherance of convenience or . . . when separate trials will be conducive to expedition and economy . . . [to] order a separate trial . . . of any separate issue or issues." The purposes of Rule 42(b) will be well served in this action by ordering a separate trial on the issue of Xerox's violation of the antitrust laws and staying proceedings, including discovery, with respect to all other issues.

One of the purposes of Rule 42(b) is to permit deferral of costly and possibly unnecessary discovery proceedings pending resolution of potentially dispositive preliminary issues. This is a factor pointed out in the position paper of Control Data Corporation and three other companies in United States v. IBM (Exhibit 1): namely, that if violation is not found to exist, great savings in unnecessary effort and expense by the Court and the parties will be achieved. This cannot be doubted by Xerox, whose counsel

has already referred to the "exhaustive" discovery which will be required on the damages issue.

Within the Court's power to order separate trials under Rule 42(b) and within the Court's power to issue protective orders under Rule 26(c) is the power to stay discovery with respect to segregated issues. Sinclair Ref. Co. v. Jenkins Petroleum Process Co., 289 U.S. 689, 693-94 (1933); Ellingson Timber Co. v. Great Northern Railway Co., 424 F.2d 497, 499 (9th Cir. 1970), cert. denied 400 U.S. 957 (1970). Accordingly, courts have frequently segregated the liability and damage issues and postponed discovery with respect to the latter until the former was established upon trial. See, e.g., Joseph v. Donover Company, Inc., 261 F.2d 812, 814-15 (9th Cir. 1958); Polaroid Corp. v. Commerce Int'l Co., 20 F.R.D. 394, 395 (S.D.N.Y. 1957).

The factor of economy, both to the parties and to the Court, is also significant in this case with respect to all of the patent claims and counterclaims, and additionally, because SCM's Third Claim and Xerox's First and Second Counterclaims all involve the validity of the Middleton-Reynolds '006 patent.

The validity of this patent is presently being challenged in a number of cases. Under the doctrine stated in Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313, 329, 338, 348 (1971), it would be a "misallocation of resources" of the parties and of the Court to proceed with litigation in this action until after resolution of the '006 patent issues in the other prior-commenced actions. The Dennison case is now first on Judge Weinfeld's Ready Calendar in the Southern District of New York. Furthermore, as a practical matter, the result of the trial on Xerox's alleged violations of the antitrust laws will have a significant bearing on whether either party would wish to continue with litigation on SCM's Third Claim or Xerox's Counterclaims, and, in any event, may well be determinative of those claims.

There are several other factors that, according to the decisional law, weigh heavily in favor of the relief here sought. First is the anticipated complexity and length of the trial, an especially important factor when a jury will be the finder of facts.* Second is the fact that the patent and damage issues and the evidence they require are significantly different from the issues and most of the evidence regarding Xerox's violation of the antitrust laws. Third

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* The "practical abilities and limitations of juries" (Ross v. Bernhard, 396 U.S. 531, 538 n. 10 (1970)) bear not only on the question of the right of trial by jury, but on the use of the "flexible procedures" of the Rules to enhance the jury's ability to decide complex legal questions without avoidable difficulties.

is the general appropriateness of separating patent from antitrust claims, as this Court did in the Litton cases, and antitrust liability from antitrust damage issues. See, e.g., Union Leader Corp. v. Newspapers of New England, Inc., 180 F. Supp. 125, 129 (D. Mass. 1960), modified on other grounds, 284 F.2d 582 (1st Cir.) cert. denied, 365 U.S. 833 (1961); Western Geophysical Co. of America v. Bolt Associates, Inc., 50 F.R.D. 193 (D.Conn. 1970); Shepard v. International Business Machine Corp., 45 F.R.D. 536 (S.D.N.Y. 1968); Reines Distributors, Inc. v. Admiral Corp., 257 F. Supp. 619 (S.D.N.Y. 1965); Report of the Attorney General's National Committee to Study the Antitrust Laws, 249 (1955).

To grant the severance asked by SCM would not prejudice Xerox in any way, and would fully preserve its claimed constitutional right. But the exercise of that right should not be used as a stratagem to block SCM's opportunity to get the promptest possible adjudication of its claim in equity.

In sum, the basis for a sound exercise of discretion by granting the severance and stay are present in this action. Such severance will be in the furtherance of the convenience of the parties and of the Court. It will avoid prejudicial delay in reaching the adjudication of equitable relief if violation is found to exist. It will be conducive to expedition and economy. And it will preserve Xerox's claimed right of trial by jury of legal issues.

If the parties can (as SCM believes) complete preparation for the trial of the severed issues by May 1, 1974, then the most efficacious method of proceeding in this case of enormous private and public importance will have been achieved. But if such preparation cannot be completed, the parties will have been afforded a more than reasonable opportunity to complete preparation for a hearing on SCM's motion for preliminary injunction, which is the next best procedure in the circumstances of this case for determining whether and to what extent interim relief should be granted pending the more protracted proceedings relating to the ascertainment of whether and to what extent permanent equitable relief should be decreed.

Accordingly, SCM's motion for separate trial of the violation issues, and for a stay of proceedings with respect to all other issues, claims and counterclaims, should be granted.

POINT II

THE PARTIES CAN COMPLETE PREPARATION FOR TRIAL BY MAY 1, 1974 OF THE ISSUES OF XEROX'S ALLEGED VIOLATION OF THE ANTITRUST LAWS. THE "MARKET" ISSUES WILL NOT REQUIRE THE ENORMOUS PRETRIAL DISCOVERY TO WHICH XEROX WILL CONTEND IT IS PROPERLY ENTITLED.

A. SCM's Preparation for the Separate Trial.

We believe that the major portion of SCM's pretrial discovery on the violation issues will be completed when Xerox complies with SCM's interrogatories and document requests which were served on July 31, 1973.

Assuming diligent efforts by both SCM and Xerox, enabling SCM to complete its other discovery and trial preparation (including obtaining admissions and stipulations concerning documents), we consider that SCM can be ready for trial of the severed issues within five months' time, by May 1, 1974.

Of course, if Xerox persists in its present position that it cannot comply with SCM's discovery requests of July 31, 1973 until May 15, 1974, obviously no separate trial can take place by about that time. If, however, by agreement or direction of this Court, Xerox were to order its priorities, and bring its will and resources to bear on prompt completion

of that discovery*, SCM considers that it can be ready for separate trial by May 1, 1974.

B. Xerox Can Be Ready for Separate Trial by May 1, 1974 Because the Enormous Discovery It Will Seek on the Market Issues is Unwarranted.

Whether Xerox can reasonably complete its defensive preparation for separate trial of the violation issues by May 1, 1974, depends upon how broadly or how narrowly, if at all, Xerox is going to be permitted to conduct pretrial discovery with respect to the "market" issue, i.e. the definition of the "lines of commerce" under Section 7 of the Clayton Act and "parts of commerce" under Section 2 of the Sherman Act. Those terms have been held to be equivalents. United States v. Grinnell Corporation, 384 U.S. 563, 573 (1966). Regardless of the amount of commerce involved, under Section 1 of the Sherman Act market definition is not required where exclusionary agreements or combinations or conspiracies or other concerted action unreasonably restrains or unreasonably affects interstate or foreign commerce as to any commodity. Where they involve a "substantial amount" of commerce, exclusionary agreements may be per se unreasonable and unlawful

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* SCM has moved separately under Rule 37 to compel prompt compliance by Xerox with reference to SCM interrogatories and document requests of July 31, 1973.

under Section 1 of the Sherman Act, again without market definition. See United States v. Socony Vacuum Oil Co., 310 U.S. 150, 224, 225 n.59 (1940) cited with approval in International Boxing Club v. United States, 358 U.S. 242, 251-252 (1959); Fortner v. United States Steel, 394 U.S. 495 (1969).

1. Xerox's contentions concerning the breadth of its discovery with respect to "market".

Xerox will contend here, as it has elsewhere, that it is entitled to an enormous amount of documentary and testimonial discovery concerning the "market" issues from at least 34 alleged competitors, only one of which is SCM.

As expressed by Xerox's counsel in the Litton case concerning market definition:

> "Enormous numbers of documents will be produced by both sides and from numerous competitors. By the same token, testimony will be required not only from witnesses representing the parties, but from many others in industry and government." (Par. 7 of the Affidavit of Stanley D. Robinson, Esq. dated Feb. 7, 1973.)

Similarly, in the Harelik case*, on Xerox's motion for

* Harelik, Allen & Wolgin v. Xerox Corporation (U.S.D.C., E.D. Mich., So. Div., Civil Action No. 39454). The complaint in this treble damage class action brought in June 1973 on behalf of all users of Xerox plain paper office copiers tracks the allegations contained in the Federal Trade Commission complaint against Xerox.

change of venue from Detroit to Rochester (which is sub judice), Xerox's counsel has asserted that the logical witnesses on the issue of market definition are those employed by Xerox and its competitors (Par. 6 of Affidavit of Milton Handler, Esq. dated August 23, 1973). The affidavit submitted in Harelik by one of Xerox's principal officers listed 34 companies, one of which is SCM, which allegedly "have been Xerox's competitors in the sale and leasing of copying and duplicating equipment." (Par. 11 of Affidavit of E. Kent Damon, dated July 31, 1973.)

Plainly, if Xerox demonstrates that it is properly entitled to that kind of market discovery, trial at any time in 1974 is impossible and a prompt hearing of SCM's motion for a preliminary injunction would be a compelling necessity.

2. Under established law concerning market definition, the wealth of facts disclosed by Xerox's own documents obviates the need for extensive discovery and provides the basis for reasonable limitations.

The inquiry begins, not ends, with Xerox's claims that it is entitled to enormous market discovery. The scope and extent of such discovery should be fashioned and limited in the light of developed law* and the known existing facts relevant

* See e.g., United States v. Grinnell Corporation, 384 U.S. 563, 573, 574 (1966); United States v. Philadelphia National Bank, 374 U.S. 321, 356,357 (1963); United States v. Brown Shoe, 370 U.S. 294 (1962); International Boxing Club v. United States, 358 U.S. 242, 251-52 (1959); United States v. duPont, 353 U.S. 586, 593-95 (1957); United States v. E. I. duPont de Nemours & Co., 351 U.S. 377 (1956); United States v. United Shoe Machinery Co., 110 F. Supp. 295, 305 (1953), aff'd per curiam, 347 U.S. 521 (1954); United States v. Aluminum Company of America, 148 F.2d 416 (2d Cir. 1945).

to this case -- not academic considerations which ignore the mass of relevant factual information concerning market definition already available in Xerox's own documents concerning its policies and activities with respect to plain paper office copying; and already available in Xerox's own documents covering its internal and publicly-expressed marketplace views as to (i) the distinctiveness, attributes, advantages and customer preferences for its plain paper office copiers compared to other copying methods or equipment; (ii) the distinct and segregated technology it has used exclusively in the development and manufacture of its plain paper office copiers; (iii) the distinctive manufacturing facilities and methods required for those copiers; (iv) its exclusion of potential competitors in the manufacture and marketing of such copiers by excluding them from the use of the required skill and technology and other practices; and (v) other facts bearing on the definition of relevant markets or submarkets. Xerox documents as shown by even the few examples described and submitted on this motion, disclose facts which evidence the existence of all these factors. Our discussion of the pertinent authorities shows that those are the factors, the "practical indicia," on which relevant market and submarket definitions are based.

As Judge Wyzanski held in United States v. United Shoe Machinery Corp., 110 F. Supp 295, 303 (1953), affirmed per curiam, 347 U.S. 521 (1954):

> "To define a market in terms of what the most important producer [the defendant] offers does not involve circular reasoning. For the problem of defining a market turns on discovering patterns of trade which are followed in practice."

He also pointed to the particular significance of the "records", the "internal and external communications", and the "research and other activities" of the defendant -- the most important producer -- in making proper market determination. (110 F. Supp. at 303) Certainly that applies with equal force to Xerox, unquestionably (by its own admission) the leader in plain paper office copying, in office copying by all methods, and in the copying of documents most broadly defined.

We turn now, in the following three subsections, to a discussion of the established legal principles to be considered in delineating the extent to which any further market discovery by Xerox may properly be required; and we use a few examples of Xerox documents to illustrate our points. Of course, our purpose in this part of the memorandum on this motion is not at this time to have the Court enter an order limiting Xerox's market discovery. That issue will be drawn if and when Xerox attempts in this action to pursue the type of market discovery

it has described in other cases.*

Our purpose here is to illustrate our view that merely because this case is of major public and private importance involving billions of dollars of commercial activities, it does not follow that preparation for trial of the issues of violation must take a protracted, indeterminate period of time. Our purpose is to illustrate our view that there is a genuine possibility or likelihood that the parties can be ready for the separate trial by May 1, 1974, preserving all legitimate rights to discovery under the Federal Rules under established legal principles which clearly mark the boundaries of evidence material to relevant submarket definitions.

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* Xerox's "First Request" for Rule 34 documentary production by SCM is plain evidence that, starting with SCM as the first of its many alleged competitors, Xerox does intend, unless restricted, to engage in enormous -- indeed horrendous discovery on the market issue. That "First Request" also calls for exhaustive discovery relating to damages and injury issues.

SCM has served its objections to that first request.

It remains to be seen, after determination by this Court, of whether proceedings will be stayed on all issues other than the issues of antitrust violation, and after attempts by the parties to resolve their differences, whether Xerox seeks a Rule 37 order to force compliance with those of its demands to which SCM does not accede.

a. Xerox's Segregation and Exclusive Use of Xerographic Technology for Plain Paper Office Copying Itself Furnishes the Basis for Market Definition.

Monopoly power has been defined by the Supreme Court as "'the power to control prices or exclude competition'", United States v. Grinnell Corporation, 348 U.S. 563, 571 (1966). A showing of monopoly power to exclude competition does not require a showing of power and intent "to exclude all competitors," because the statute proscribes monopolizing "any part of the trade or commerce among the several states, or with foreign nations." American Tobacco v. United States, 328 U.S. 781, 789 (1946) (the Court's emphasis).

Kobe v. Dempsey Pump Co., 198 F.2d 416 (10th Cir. 1952), cert. denied 334 U.S. 837 (1952), is remarkably pertinent to the market issues here and, i n d e e d, to the issues of violation. It is a concrete example of the principle that monopolization can occur with respect to a particular product (which there faced "some competition" from other products used for the same purpose) where the acquisition of control over patented technology and the exercise of that control excludes all competitors from manufacturing or marketing the product. In Kobe, one of the plaintiffs*

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* The other plaintiffs were parties having direct or indirect interests in the ownership of the patents; and that aspect of the case has no bearing on market issues here, although it does relate to violation issues here.

was the exclusive licensee of certain patents relating to hydraulic pumps and prospered as the sole manufacturer of those pumps from 1934 to 1948. The plaintiffs brought a patent infringement suit in 1948 against the defendant, which was just beginning to attempt to manufacture and market a hydraulic pump for the same purpose.

The Court of Appeals affirmed the decision below, which had granted the defendant treble damages and injunctive relief on its monopolization counterclaim that the infringement suit was brought as part of a continuing monopolization scheme, for the purpose of maintaining the plaintiffs' sole control of all the patented technology, and the manufacturing and marketing of hydraulic pumps for oil wells.

The Appellate Court affirmed the holding that the concerted action by the plaintiffs (and predecessors) in pooling and acquiring patents, in their various practices and public assertions concerning their control of the patented technology involved, and in the bringing of the patent infringement action, were all part of a plan "to corner the hydraulic pump business for oil wells, and that it had had that result." (198 F.2d at 423)

Plaintiffs argued on appeal that the lower court had erred in defining the relevant market for Section 2 purposes as hydraulic pumps for oil wells, since there were other types of

pumps for use in oil wells which were in active competition with the hydraulic pump manufactured by the plaintiff.

The Court of Appeals rejected that argument. It held that despite the existence of "some competition" from sucker pumps, electric pumps and gas lift pumps as to particular usages, plaintiff's hydraulic pump business "was an 'appreciable' part of the oil pump industry" and was therefore under established antitrust principles, a "part of commerce" for purposes of Section 2 of the Sherman Act. (198 F. 2d at 422-23)

Similarly, Xerox's best possible contentions here are that there is "some competition" for its plain paper office copiers toward the edges of its business -- from coated paper office copiers at low volume usages, and from offset and other duplicating equipment at very high volume usages; with a great gap in between where its business is done without any competition except that from IBM;* and likewise without competition, except that from IBM, for the broad spectrum of users of office copiers who will take nothing other than plain paper copies of documents, and who will not consider the benefits of substantially lower prices from the use of coated paper office copiers.

It serves no useful purpose here in our discussion of market definition to detail the extraordinary similarity which exists between the facts in Kobe and the facts in this

* The Xerox documents so far produced to SCM evidence the negligible marketplace effect, if that, from any of the few plain paper office copiers of other manufacturers. In 1972, Xerox's President said that the impact on Xerox of IBM's entry since 1970 was "very, very small." (Ex. 7, p. 49)

case as alleged by SCM, including the many years in which there was only one manufacturer of the product because of its patent control, the many patent acquisitions, the pooling of interests, the public assertions of patent power over the product and technology involved, the failure to license others, the extensive thicket of patents which were not used in making the product, the use of threats and maintenance of patent infringement suits, and other acts and practices. Since those matters go to violation, we only note their existence at this juncture.

On the basis of facts disclosed in Xerox documents, SCM expects to establish without any controversy, that Xerox knowingly excluded potential competitors from the use of the skill and technology of plain paper office copiers by denying licenses and other practices; and as a result, it knowingly excluded potential competitors from the manufacture and marketing of plain paper office copiers.

Whether or not the mere demonstration of such exclusion establishes its illegality, such exclusion does establish that Xerox itself created and has since maintained the skill and technology of plain paper office copying, and the manufacture and marketing of plain paper office copiers as, "economically significant submarket[s]". Brown Shoe Co. v. United States, 370 U.S. 294, 325 (1962).

These conclusions are vividly illustrated in a "Personal and Confidential" memorandum written in 1964 by Xerox's Vice President in Charge of Research to Xerox's President, copies of which were circulated to its Chairman and to one other Vice-President, who is now its chief executive officer. It dealt with IBM's requests to obtain a plain paper copying license from Xerox, which Xerox subsequently refused. The memorandum stated as follows:

> "It seems to me that we should not give in to IBM, even if circumstances should arise in the future which would make it advisable to broaden our license scope. I hope that we will be allowed to be choosey about what we license, and perhaps also whom we license. I can think of a lot of companies to license long before we would pick IBM, our most formidable future competitor.
>
> "I am sure you noticed the implied compliment to our company. IBM, in fact, says that we are still in possession of the best approach and that they know of none to replace it at the present time." (Ex. 2 hereto, marked as production Ex. 8e-105)

A few months earlier, in November 1963, Mr. McColough (then a Xerox Vice-President and now its chief executive officer) wrote a memorandum (Ex. 3 hereto, production Ex. 8e-9) commenting on discussions between Mr. Wilson, Xerox's President and Mr. Mead, SCM's President, earlier that month. Mr. Mead had requested a plain paper copying patent license for SCM from Xerox, and in which, as Mr. Wilson said in a memorandum, he had "promised [Mr. Mead] that it would receive serious consideration." (Ex. 4 hereto, production Ex. 8e-7). Mr. McColough's comment was that:

> "I think tactically that it was both wise and the only proper course of action to follow to tell Mead that this would be given serious consideration. On the other hand, as far as we ourselves are concerned, I can think of no reason why it makes sense to entertain such a thought seriously."

In 1968, Xerox's General Counsel had the occasion to write Xerox's President:

> "SCM's patent counsel has made his annual inquiry as to our willingness to license in selenium [plain paper office copying] xerography; and Stan Cole has given the usual answer. You will be interested to know that they have not forgotten it, however." (Ex. 5 hereto, production Ex. 8e-11B)

It was therefore no accident of fate that commercial activities in office copying using xerographic (electrostatic) means have been divided for more than the past decade into two classes -- two identifiable categories. First, electrostatic copying which produces copies on plain paper; and second, electrostatic copying which produces copies on specially coated and chemically treated paper.

Xerox has admitted in its pleadings in the Dennison case that "certain past commercial activities in electrostatic photocopying may be classed in two different categories," the first commercial type of which produces copies on ordinary paper, and the second commercial type of which produces copies on paper coated with zinc oxide.*

* See par. 5 of Dennison's Answer realleged as par. 24 of its counterclaim, and par. 2 of Xerox's reply, all Exhibit 6 hereto.

Such differentiation of commercial activities with respect to xerographic copying technology into those two categories was, as the Xerox documents show unquestionably, the direct result of (a) Xerox's refusals to grant patent licenses to IBM, SCM and other potential competitors for plain paper office copying; and (b) more than 60 patent licenses it has extended since 1960 for royalties and other consideration (including grant-backs and other access to xerographic technology developed by others) which allowed the licensees to use the patented inventions for coated paper office copying and other purposes, but which never allowed their use in plain paper office copying.

That there can be no real dispute that, under established law, the manufacture and marketing of plain paper office copiers constitute relevant submarkets for antitrust purposes, is further evidenced by the published response given by Xerox's President in 1972 to a question concerning the number of competitors in the non-sensitized paper copying field:

> "Well we [Xerox] had the first plain paper copier, as we call it, and to date the only real competition we have had, with some minor exceptions in Japan, is from IBM. They've been in the market since April 1970."*

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* (p. 49 , Ex. 7 hereto, from the September 1972 edition of Nation's Business.)

b. The public recognition given to Xerox's copiers as a separate economic activity, and the distinctiveness, unique characteristics and uses, "settled customer preferences" and the attributes or advantages of plain paper office copiers compared to other copying equipment are all factors which also show that there is no real market issue in this case.

Xerox claims in par. 6 of its Answer that SCM "purports to state [in par. 7 of the Amended Complaint] an unduly narrow definition of 'plain paper office copiers' which is used throughout the complaint." SCM had alleged in paragraph 7 of its Amended Complaint that "plain paper office copiers are office machines which conveniently and cleanly produce copies of documents on plain or bond paper without the use of stencils, spirit or offset masters." Xerox's denial of that allegation is strange indeed; in substance it is the very same description of the distinctiveness in function, attributes and use which Xerox's chief executive officer publicly expressed in 1964, when with reference to the models of Xerox copiers being marketed and the new one being introduced at that time, he said:

> "Never before, literally never before, has there been any way to repeat messages on paper so rapidly, so conveniently, so cheaply, without first preparing some kind of intermediate from the original. In some cases, these intermediates are retyped from originals. In some cases, they are photographed or stencils are made or plates are developed. (Emphasis his)*

* (p.6 of Ex. 8 hereto, marked as production Ex. 20-24.)

Moreover, as shown by other documents produced by Xerox to SCM, Xerox has time and time again emphasized the ability of its various models to produce "copies on ordinary paper directly from the original without the need for a master or stencil" and the ability of Xerox copiers to eliminate "down-time equipment and special materials most offset processes require to create a master, set up the machine, adjust ink flow and other tasks." (See e.g., p. 1 of Exhibit 9 , and p. 4 of Exhibit 10 hereto, marked as production Exs. 20-31and 20-70.)

Can it be disputed that "xerox" copies or "xeroxing" have become household words in the offices, schools and homes throughout this country and in many foreign countries? That must be considered as a strong factor, and in this case probably a conclusive factor, in delineating the marketing of plain paper office copiers as a separate relevant submarket for antitrust purposes. See Brown Shoe v. United States, 370 U.S. 294, 325 (1962) where the Court expressed a number of factors to be considered in determining the boundaries of a submarket, the first of which is "such practical indicia as industry or public recognition of the submarket as a separate economic entity. . . ."

Unquestionably, as also can be shown without controversy from Xerox documents, there is a "settled consumer

preference" for plain paper office copiers (indeed, as to many users, only plain paper office copiers will be considered and used) as compared to coated paper office copiers; and that factor alone serves in this case to define those two types of office copiers in separate relevant submarkets for purposes of Section 2 of the Sherman Act and Section 7 of the Clayton Act. United States v. Philadelphia National Bank, 374 U.S. 321, 356-357 (1963).

The fact that Xerox admittedly has never engaged in the manufacture or marketing of coated paper office copiers using xerographic technology (although it possesses all the patented rights to do so) or any other kinds of coated paper office copiers, is another important relevant factor in market definition. In United States v. United Shoe Machinery Corp., 110 F.Supp. 295, 303 (D. Mass. 1953), aff'd per curiam, 347 U.S. 521 (1954), Judge Wyzanski excluded a certain type of machinery used in making shoes from the market he defined as shoe machinery, and rested that exclusion on the fact that the leading producer did not offer that kind of machinery. The fact that Xerox has concentrated all its energies on only plain paper office copying products and has never manufactured or marketed coated paper office copiers, in recognition of the superiority and distinctiveness of plain paper office copying, likewise is a ground here as in United Shoe, for excluding coated paper office copiers from the relevant plain paper office copying submarket.

c. The concept of "interchangeability" and the existence of some competition for plain paper office copiers from coated paper office copiers, offset equipment or other copying methods is immaterial to market definition on the facts already known in this case.

In suggesting in the Litton case that extensive discovery will be required on the threshold issue of market definition, Xerox's counsel said that "the degree of interchangeability among products and the cross-elasticity of demand which exist in a particular segment of the economy can only be established by competent testimony elicited from knowledgeable industry sources." As to this issue, he said that "Enormous numbers of documents will be produced from both sides and by numerous competitors," whose testimony will also be required (Par. 7 of affidavit of Stanley D. Robinson, Esq. dated Feb. 7, 1973.)

However, before it can establish the need for that kind of discovery in this case on the facts already available, Xerox must hurdle established principles of law relating to the extent to which concepts of interchangeability and cross-elasticity are considered to have any relevance or materiality to the issue of market definition. As the Court pointed out in United States v. Grinnell, 384 U.S. 563, 573 (1966), in holding that accredited central station service was a separate

relevant part of commerce under Section 2 of the Sherman Act distinct from non-automatic, and from automatic, local alarm systems:

> "There are, to be sure, substitutes for the accredited central station service. But none of them appears to operate on the same level as the central station service so as to meet the interchangeability test of the du Pont case. Non-automatic and automatic local alarm systems appear on this record to have marked differences, not the low degree of differentiation required of substitute services as well as substitute articles."

Moreover, the fact that there is or may have been during some periods of time, competition for some models of Xerox's plain paper office copiers from other methods of copying, or that Xerox's copiers have attempted to compete with other kinds of copying or duplicating equipment, does not mean that the relevant market or submarket includes those other products. In Grinnell, du Pont (General Motors), International Boxing Club, Kobe, Paramount Pictures and other authorities cited in this memorandum, that degree of competition was always present. In United States v. Alcoa, 377 U.S. 271 (1964), the Court held that although there was competition between insulated aluminum conductor and its copper counterpart, that degree of

competitiveness did not preclude their division for purposes of Section 7 of the Clayton Act into separate relevant lines of commerce. On this point the Court stated and held (377 U.S. at 275):

> "Admittedly, there is competition between insulated aluminum conductor and its copper counterpart, as the District Court found. Thus in 1959 insulated copper conductor comprised 22.8% of the gross additions to insulated overhead distribution lines. This is enough to justify grouping aluminum and copper conductors together in a single product market. Yet we conclude, contrary to the District Court, that that degree of competitiveness does not preclude their division for purposes of § 7 into separate submarkets, just as the existence of broad product markets in Brown Shoe Co. v. United States 370 U.S. 294, 82 S.Ct. 1502, 8 L.Ed.2d 510, did not preclude lesser submarkets."

In International Boxing Club v. United States, 358 U.S. 242, 249-252 (1959), the Court affirmed findings that championship boxing matches were a relevant part of commerce under Section 2 of the Sherman Act in contrast to all professional boxing events. The Court rejected the arguments that the concepts of interchangeability were relevant or material based on the facts involved.* It held that, as in United States v. Paramount Pictures, 334 U.S. 131 (1948), where first run films constituted the "cream" of the movie exhibition business

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* The decision in International Boxing Club and Brown Shoe are among the few decisions of the Supreme Court concerning market definition or the application of facts to market definition of which Professor Handler has approved since the Cellophane decision in 1956. See Handler, Twenty-Five Years of Antitrust (1973) at 319-323, reprinting a 1959 lecture.

and therefore was a "part of commerce" under Section 2 of the Sherman Act, championship boxing matches were likewise the "cream" of the boxing business and therefore "a sufficiently separate part of the trade or commerce to constitute the relevant market for Sherman Act purposes" (358 U.S. at 252).

Here, Xerox's published statements and the documents which it has already produced-- not to speak of the experience of every one of us -- demonstrate beyond question that plain paper office copiers are the "cream" of all of office copiers; and therefore, are a sufficiently separate part of the trade or commerce to constitute the relevant market or submarket for Sherman Act purposes.

3. Summary: There is a strong likelihood that the market issue and other discovery needed by Xerox to which it is properly entitled, will have manageable limits, enabling Xerox to prepare for separate trial of only the violation issues by May 1, 1974.

We think that we have more than demonstrated that Xerox's ipse dixit, that enormous pretrial discovery will be required on the market issue, is insufficient to establish that such unlimited discovery is proper or that the Court will allow it to take place. It is going to be necessary for Xerox to show that discrete and concrete forms of particular kinds of discovery from particular identifiable sources "has the likelihood of leading to admissible evidence" (Rule 26[a] of the

FRCP); that is, evidence which under established legal principles will be material to the ultimate adjudication of the market issues. Framed in that way, we think that Xerox's market discovery, if any, will be kept within manageable limits.

It does not appear that there is any other subject area which will involve substantial and protracted discovery by Xerox, assuming severance as requested and the stay of other proceedings including damages and injury issues and the patent issues.

In short, assuming diligent efforts by Xerox and SCM, there is a strong likelihood that Xerox, like SCM, can be prepared for the separate trial by May 1, 1974. Quite naturally, the scheduling of such a trial date by the Court some five months in advance would itself be a great stimulus to the parties to do everything in their power to be ready by that time.

But if we are wrong in our views concerning the limitation of market issue discovery which Xerox will seek, and consequently wrong with respect to the parties' abilities to ready themselves properly for separate trial in the next five months, then hearing should commence at that time on SCM's motion for a preliminary injunction for the reasons set forth in Point I of this memorandum.

Conclusion

SCM's motion and the relief requested should be granted.

Respectfully submitted,

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November 16, 1973

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MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION FOR SEPARATE TRIAL AND ANCILLARY RELIEF

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,	:	
Plaintiff,	:	
-against-	:	Civ. No. 15807
XEROX CORPORATION,	:	
Defendant.	:	

DEFENDANT'S MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION FOR SEPARATE TRIAL AND ANCILLARY RELIEF

INTRODUCTORY STATEMENT

Xerox Corporation ("Xerox") submits this memorandum in opposition to plaintiff's ("SCM's") motion for (1) a separate trial of the issue of whether Xerox has violated the antitrust laws prior to trial of the antitrust issues of impact on SCM (i.e., fact of damage), quantum of damage, and appropriate injunctive relief; (2) a stay of all proceedings on all antitrust issues other than the issue of violation; (3) a stay of discovery on all patent claims, including Xerox' counterclaims for infringement as well as SCM's claim for declaratory relief; and (4) the scheduling of May 1, 1974 for the desired separate trial or, alternatively, for a hearing on SCM's motion for a preliminary injunction.

Memorandum in Opposition to Plaintiff's Motion for Separate Trial and Ancillary Relief

The sequence of events contemplated by SCM's separate trial motion with respect to the antitrust phase of the case involves the following wholly unprecedented three-trial procedure: (1) a jury trial confined to the issue of violation, followed by (2) a trial before the Court on the issue of equitable relief (assuming a finding of violation), followed finally by (3) another jury trial on the issue of whether the violation has had an adverse impact on SCM and, if so, the amount by which SCM has thereby been damaged in its business or property.

As we shall demonstrate, the issue of violation cannot be carved out for a trial separate from the other antitrust issues pursuant to Rule 42(b) of the Federal Rules of Civil Procedure because:

1. It is impossible in the circumstances of this monopolization case to separate the legal and factual inquiry into Xerox' alleged violation of the antitrust laws from that of the impact of Xerox' acts on its actual and potential competitors, including SCM;

2. Even if such a separation were possible (which it is not), it would serve no useful purpose since neither a finding of liability on SCM's damage claim nor a determination of the appropriate form of injunctive relief, if any, on its equitable claim could be made without first assessing the impact on SCM of the challenged conduct -- an assessment

which, because of Xerox' demand for a jury trial on SCM's damage claim, must be made by the jury; and

3. While the issue of the quantum of damage can theoretically be separated from the issues relating to liability (i.e., violation and impact), the facts pertaining to quantum of damage here are so intertwined with those of liability that treating them separately would require substantial repetition of evidence and frustrate the objectives of Rule 42(b).

Since a separate trial on the issue of antitrust violation, which would preclude consideration of the question of anticompetitive impact on SCM and other competitors, is a legal impossibility, and since a separate trial of all issues other than the quantum of SCM's claimed damages is inappropriate in the circumstances of this case, SCM's request for a stay of proceedings on all antitrust issues other than that of violation is groundless. But even if the issue of damages, as distinguished from liability (i.e., violation and impact), were to be tried separately, judicial economy and efficient administration of this litigation would dictate that pretrial discovery proceed in the meantime on all issues, so that in the event of a jury finding of liability, the same jury could thereupon proceed to determine the measure of damages.

Even if it were both possible and proper as a matter of law to hold a separate trial on the issue of violation (which it clearly is not), SCM's request for a May 1, 1974 trial date is incredible. Conceding that such a trial could not conceivably be held at such an early date if Xerox is afforded full discovery on the issue of market definition (the threshold question in every monopolization case), plaintiff makes the astonishing proposal that such discovery be drastically limited, if not entirely dispensed with. In other words, Xerox is to be denied due process of law so that SCM, the most tardy of all the plaintiffs to have brought suit against Xerox, may secure a trial before anyone else. What is more, wholly apart from Xerox' right to discovery with respect to the relevant market, SCM's charge of monopolization of "the skill and technology and manufacture and marketing of plain paper office copiers" -- on a worldwide basis, no less -- raises so many <u>other</u> issues of fact which require discovery, as to make it a foregone conclusion that this case cannot possibly be reached for trial by May of 1974.

Recognizing the obvious fact that even the truncated separate trial it seeks cannot realistically be held by May, 1974, SCM asks alternatively that its motion for a preliminary injunction be heard at that time. But, as counsel for Xerox explained to the Court in chambers on September 12, 1973, SCM can in no event be entitled to the "preliminary" relief it requests because, if the injunction prayed for in

its complaint were issued, it would not preserve the status quo (the only proper function of a preliminary injunction); instead, it would provide SCM with the equivalent of ultimate relief on the merits.* In such circumstances, before the Court fixes a date for a preliminary injunction hearing which would be an essay in futility, Xerox respectfully requests that a schedule be established for the prompt briefing and argument of the legal issue of SCM's right to the type of preliminary relief set forth in its complaint. (The Court indicated in chambers that such briefing would be appropriate if SCM elected to press its motion for a preliminary injunction.)

As for plaintiff's request for a separate trial of the patent issues and a stay of proceedings relating thereto, Xerox has no objection to such a separate trial of what are obviously factually and legally distinct claims. But the requested stay is unwarranted. It would unnecessarily delay ultimate determination of Xerox' patent claims and is contrary to the procedure which is being followed in the Litton case.

*As set forth in paragraphs 49-53 of the complaint, SCM seeks a preliminary injunction not only prohibiting Xerox from (a) threatening, instituting or maintaining any patent infringement action or claim against SCM with respect to plain paper office copiers; or (b) threatening, instituting or maintaining any other action in the United States or abroad which might impede SCM's efforts with respect to plain paper office copiers; but, in addition, (c) ordering Xerox to grant SCM a license under all United States and foreign patents and patent applications it owns or controls; (d) ordering Xerox to disclose its short and long-range plans for the manufacture and marketing of plain paper office copiers; and (e) prohibiting Xerox from enforcing or attempting to enforce its ancillary covenants with employees restraining them from competing with Xerox following termination of their employment.

ARGUMENT

Before developing our argument, we believe that it will be helpful to the Court to set forth the basic legal principles governing the application of Rule 42(b), the elements of a private antitrust claim in general, and, more specifically, the elements of SCM's monopolization claim in the case at bar.

BASIC PRINCIPLES

A. The Requirements of Rule 42(b)

Rule 42(b), which authorizes the district courts to order separate trials of separate issues, provides that it is to be used to further convenience, avoid prejudice and serve the interests of "expedition and economy." With this object in mind, the Rule has been utilized in a variety of contexts -- to the extent consistent with preservation of the right to jury trial* -- where holding a separate trial on one of several separate issues will avoid unnecessary complexity and confusion without expanding the time of trial by causing undue duplication of evidence. Thus, it is basic to the Rule, and a matter of common sense as well, that the issue sought to be separated for trial must in fact be a "separate issue." Rule 42(b) itself could not be clearer. It states:

*The Rule itself states that the right of trial by jury must be preserved "inviolate."

> "The court, in furtherance of convenience or to avoid prejudice, or when separate trials will be conducive to expedition and economy, may order a separate trial of any claim, cross-claim, counterclaim, or third-party claim, or of any separate issue or of any number of claims, cross-claims, counterclaims, third-party claims, or issues, always preserving inviolate the right of trial by jury as declared by the Seventh Amendment to the Constitution or as given by a statute of the United States." (emphasis added).

Unless the issue sought to be tried separately is actually distinct, factually as well as legally, from the other issues in the case, it is simply impossible to try it in isolation without injustice. And if, to avoid such injustice, all of the facts necessary to assure a fair hearing of the separated issue were indeed to be introduced at a separate trial, it would be contrary to the judicial economy which underlies the Rule to hold determination of other intertwined issues for another day and require the introduction of the identical evidence to be repeated all over again at a second trial.

The cases which have applied Rule 42(b) to allow separate trials of separate issues, as well as those which have rejected its application, have consistently acknowledged that the Rule cannot be used to separate for trial any issue which is interrelated or "interwoven" with other issues in the same case.

The point was made explicitly in Hosie v. Chicago and North Western Ry., 282 F.2d 639 (7th Cir. 1960), cert. denied, 365 U.S. 814 (1961). There the Seventh Circuit affirmed a decision for the defendant in a negligence case, where trial had been held solely on the issue of liability. In holding that the trial judge acted within his discretion in trying the liability question separately and before reaching the damage issue, the court made clear that this result would not be permissible if the damage evidence had been pertinent to the liability issue:

> "It is important that the rule permitting the severance of issues be carefully administered. It is almost certain that cases will come before the court where a question as to the injuries has an important bearing on the question of liability. In a recent case before this Court, where there had been no separation of issues, it was important to ascertain whether a flame causing an explosion resulted from a spark of static electricity near the floor, or whether it was caused by a flame from a pilot light near the top of a gas stove. The location of the burns on the face and upper part of plaintiff's body were a proper and important consideration for the Jury." (282 F.2d at 643-44).

The Fifth Circuit made the same point in Swofford v. B & W, Inc., 336 F.2d 406 (5th Cir. 1964), cert: denied, 379 U.S. 962 (1965), a patent infringement action. After stressing that piecemeal trial of separate issues is not to be the usual procedure, it went on to approve the use of separate trials of liability (i.e., validity and infringement) and damages in patent cases. In doing so, the court emphasized the requirement that the issue to be tried separately be truly separable:

> "There is an important limitation on ordering a separate trial of the issues under Rule 42(b): the issue to be tried must be so distinct and separable from the others that a trial of it alone may be had without injustice . . . . Thus we approve of the district judge's order on the basis that we cannot think of an instance in a patent action where the damage issue is so interwoven with the other issues that it cannot be submitted to the jury independently of the others without confusion and uncertainty, which would amount to a denial of a fair trial." (336 F.2d at 415).

Several cases which have denied separate trial of an issue under Rule 42(b) have done so squarely on the ground that the issue involved was not sufficiently distinct from the other issues in the case. For example, in United Air Lines, Inc. v. Wiener, 286 F.2d 302 (9th Cir. 1961), cert. denied, 366 U.S. 924 (1961), the Ninth Circuit reversed a district court decision which permitted a separate trial of liability from that of damages in a negligence action involving a mid-air collision between two airplanes. The court based its reversal upon the fact that the plaintiffs, who were passengers in one of the aircraft, sought not merely compensatory but exemplary damages, which under state law were to be assessed on the basis of the defendants' culpability. The court therefore held as follows:

> "We do hold that under the circumstances presented by this appeal the issues of liability and damages, exemplary or normal, are not so distinct and separable that a separate

> trial of the damage issues may be had without injustice. The question of damages is so interwoven with that of liability that the former cannot be submitted to the jury independently of the latter without confusion and uncertainty which would amount to a denial of a fair trial." (286 F.2d at 306).

Judge Rifkind reached the same conclusion in United States ex rel. Rodriguez v. Weekly Publications, Inc., 9 F.R.D. 179 (S.D.N.Y. 1949). He rejected plaintiff's request to try liability in a mail fraud case separate from the question of damages because:

> "[F]raud in the abstract does not give rise to a claim. It is only fraud causally connected to damage which is the basis of an action." (9 F.R.D. at 180).

Elaborating the reasons for his ruling, Judge Rifkind went on to say:

> "In the instant case, the segregation of the issues of liability and damages and their trial to two separate juries would mean that the first jury would be confronted with the question of fraud in the abstract without the necessary connection to specific damage and the second jury would be confronted with the issues of damages without having before it the links which unite them to the fraud." (Id.).

C. W. Regan, Inc. v. Parsons, Brinckerhoff, Quade & Douglas, 411 F.2d 1379 (4th Cir. 1969), where the Fourth Circuit held that a question of contributory negligence precluded separate trials of liability and damage, is to the same effect:

> "The split trials eliminated any quantitative judgment by the jury as to the amount of damage which resulted from plaintiff's own conduct and the amount which resulted from conduct of Diamond. Although separate trials have their uses, it would appear that separating the issues of liability and damages in this kind of fact situation can only produce confusion and prevents the jury from any serious consideration of the respective roles of the parties in the creation of the damage." (411 F.2d at 1388).*

B. The Elements of a Private Antitrust Claim

Section 4 of the Clayton Act, 15 U.S.C. § 15, provides that "any person who shall be injured in his business or property by reason of anything forbidden by the antitrust laws" may maintain a treble damage action. To recover, a "private plaintiff must establish first that a violation of the antitrust laws has in fact occurred, second that the illegal conduct charged actually caused a business

*Cf. Gasoline Products Co. v. Champlin Refining Co., 283 U.S. 494 (1931), where the Supreme Court dealt with the analogous question of the circumstances under which a district court, having been reversed on appeal on a single issue, may on remand limit the new jury trial to the sole issue on which the reversal was grounded. In holding that at the new trial the jury would have to reconsider liability as well as damages, although the reversal had been based solely on the latter question, the Court emphasized the inseparability of the factual and legal issues presented for decision: "Where the practice permits a partial new trial, it may not properly be resorted to unless it clearly appears that the issue to be retried is so distinct and separable from the others that a trial of it alone may be had without injustice . . . . Here the question of damages on the counterclaim is so interwoven with that of liability that the former cannot be submitted to the jury independently of the latter without confusion and uncertainty, which would amount to a denial of a fair trial." (283 U.S. at 500).

or property injury, and third that the injury suffered is measurable in dollars." American Bar Association, Antitrust Developments 1955-1968, p. 279 (1968).

Although a treble damage claim thus has three elements, i.e., violation, injury (or impact) and damages, the first two combine to form the ingredients of a defendant's liability. Put another way, there is no liability to a private party without impact, and the courts have uniformly held that the element of impact is the essence of any private suitor's claim. Thus, in Duff v. Kansas City Star Co., 299 F.2d 320, 323 (8th Cir. 1962), the Eighth Circuit stated:

> "The gist of a private treble-damage action is not the violation of the antitrust laws, as such, but is the allegation of facts from which it may be inferred that a party plaintiff was caused direct injury to his business or property as a result of such violation."

See also Hart v. B. F. Keith Vaudeville Exchange, 12 F.2d 341, 345 (2d Cir. 1926), cert. denied, 273 U.S. 703 (1926):

> "The right to recover damages under the Sherman Act requires proof of an injury to the business or property of the person or corporation suing 'by reason of anything forbidden or declared to be unlawful by this act.' The plaintiff who seeks recovery must bear the burden of proof, not only that there was an attempt or actual monopolization or a combine or conspiracy in violation of the antitrust law, but it must be shown that there was injury to him as a proximate result."

In sum, to quote the First Circuit in Haverhill Gazette Co. v. Union Leader Corp., 333 F.2d 798, 802 (1st Cir. 1964), cert. denied, 379 U.S. 931 (1964):

> "In a private antitrust action liability and damages are not separate . . . . One cannot think of private liability for violation of the antitrust laws except in terms of impact and damages."*

C. The Elements of SCM's Monopolization Claim

SCM's complaint charges, in essence, that Xerox "has, in violation of Section 2 of the Sherman Act (15 U.S.C. § 2), monopolized and attempted and conspired to monopolize the skill and technology and manufacture and marketing of plain paper office copiers." (¶ 1(a)).**

The Supreme Court, in United States v. Grinnell Corp., 384 U.S. 563, 570-71 (1966), defined the offense of monopolization as follows:

*See also, e.g., Story Parchment Co. v. Paterson Parchment Paper Co., 282 U.S. 555, 562 (1931); Hawaii v. Standard Oil Co., 405 U.S. 251, 262 (1972); Burnham Chemical Co. v. Borax Consolidated, 170 F.2d 569, 571 (9th Cir. 1948), cert. denied, 336 U.S. 924 (1949); Atlas Building Products Co. v. Diamond Block & Gravel Co., 269 F.2d 950, 958 (10th Cir. 1959), cert. denied, 363 U.S. 843 (1960).

**The complaint (¶¶ 1(b), 1(c)) also alleges violations of Section 1 of the Sherman Act and Section 7 of the Clayton Act, but the same allegedly unlawful acts are also comprehended by the basic monopolization claim.

> "The offense of monopoly under § 2 of the Sherman Act has two elements: (1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident."

The first of these elements -- monopoly power -- means "the power to control prices or exclude competition." United States v. E. I. duPont de Nemours & Co., 351 U.S. 377, 391 (1956). The existence of such power can be ascertained only in the context of a relevant market (both as to product and geographic area) which "must recognize meaningful competition." United States v. Continental Can Co., 378 U.S. 441, 449 (1964).

But the mere possession of monopoly power is insufficient to establish the offense. It is also necessary to prove that such power was willfully acquired or maintained. As a general rule, this entails a showing that the alleged monopolist has acquired its power unlawfully (for example, by acquisition, combination or exclusionary tactics) or has exercised such power to perpetuate or expand the monopoly or exclude actual or potential competitors. This involves an inquiry into the impact of the defendant's acts on its competition. Thus, for example, in United States v. Grinnell Corp., 384 U.S. 563 (1966), the Court found that Grinnell had, inter alia, entered into restrictive agreements and engaged in pricing practices "that contained competitors". Id. at 576. Similarly, in Telex Corp. v. International Business Machines Corp., 5 CCH Trade Reg. Rep. (special

supplement Sept. 24, 1973), the Court found that IBM had monopolized the relevant market by virtue of specific acts which were intended to affect, and actually did adversely affect, its competitors.

* * *

It follows from these elementary principles of law that SCM's private antitrust claim premised on alleged monopolization by Xerox involves proof of the effect of Xerox' alleged acts on all of its actual and potential competitors, including SCM -- the very same evidence, so far as SCM is concerned, which would be relevant to its claim that it was injured in its business and property as a result of the alleged violation of law.

I

THE ISSUE OF XEROX' ALLEGED VIOLATION OF THE ANTITRUST LAWS CANNOT BE TRIED SEPARATE AND APART FROM THE ISSUE OF THE IMPACT OF XEROX' ACTS ON SCM BECAUSE THE TWO ISSUES ARE FACTUALLY INSEPARABLE.

The first fatal obstacle to the motion for a separate trial is that the issue of monopolization in this case, which SCM would divorce from all other issues, is inextricably intertwined with the issue of the impact of Xerox' conduct on competition -- and that competition includes the efforts of SCM and every other Xerox competitor.

That the issue of violation is not separate from that of the impact of Xerox' acts on SCM and other actual and potential competitors follows ineluctably from the nature

of the charges made in SCM's own complaint. That complaint, as we have noted, charges Xerox with monopolization of the technology, manufacture and marketing of plain paper office copiers by virtue of a number of alleged practices charged to have excluded SCM and others from that field. To determine whether Xerox is in fact guilty of such monopolization, it is necessary to show that it has power over price or power to exclude competitors, and that it willfully acquired or maintained that power. In short, the only way to determine whether there has been monopolization, as alleged by SCM, is to examine the actual state of competition in the market during the relevant period and the specific effects on competitors and potential competitors of the acts and practices under challenge -- an inquiry which by definition subsumes the question of private injury to SCM.

There is no need to labor the obvious or to engage in deductive reasoning, for the interrelationship between the issues of violation and impact is apparent from the face of the complaint itself, which predicates violation upon such interrelationship. Thus, in paragraphs 13 and 14, SCM alleges that "Xerox's monopolistic position and power" resulted from its "exclusionary exploitation of the skill and technology of plain paper office copying." (Emphasis added). In other words, plaintiff alleges that Xerox has in fact used its patents and unpatented technology to exclude competition. How, then, can the jury possibly determine the issue of violation, factually or legally, without considering

whether the specific practices did in fact operate to exclude competition, including the competition of SCM -- which is but another way of saying that the jury must also determine the question of impact?

Similarly, paragraph 15 of the complaint alleges that since 1961, when its allegedly unlawful monopoly was supposedly initially acquired, Xerox has "maintained and enlarged" that monopoly by, inter alia, "anticompetitive acts and practices . . . and continuing exclusionary exploitation." Once again, it is impossible to determine whether Xerox has committed the violation alleged in paragraph 15 unless it is found not only that the acts and practices occurred but that they in fact had the exclusionary effect alleged by SCM -- which means that there must be an inquiry as to the effect of Xerox' conduct on its competitors and potential competitors, a group which indisputably includes SCM.

The interrelationship between impact and violation in this case is further shown by paragraphs 24, 25, 26 and 27, the allegations of which are tied directly to the claimed exclusionary and anticompetitive effect of Xerox' acts on "SCM and others."

In paragraph 24, SCM alleges that "by 1961 and in no event later than 1963, Xerox had acquired and aggregated a patent thicket . . . which excluded and prevented SCM and other potential competitors from engaging in the manufacture of plain paper office copiers." (Emphasis added). SCM then

goes on to allege more specifically, in subparagraphs (b) and (c) of paragraph 24, that by that time, Xerox had "recreated a powerful patent structure which . . . [gave] it the power to exclude and block potential competitors from entry into the business of manufacturing and marketing plain paper office copiers"; and "ensured that no one else would engage in the manufacture or marketing of plain paper office copiers without licensing by Xerox." Given these allegations of violation, it will be relevant to determine not only whether Xerox in fact has a "patent thicket," but whether, in addition, this so-called thicket actually "excluded and prevented SCM and other potential competitors from engaging in the manufacture of plain paper office copiers"; whether it in fact "blocked" them from "entry into the business of manufacturing and marketing plain paper office copiers"; and whether it ensured that they could not "engage in the manufacture or marketing of plain paper office copiers without patent licensing by Xerox."

By the same token, whether Xerox had the power to "regiment the entire businesses of manufacturing and marketing plain paper office copiers"; to "exclude competitors and suppress and restrain any potential or actual competition in the manufacture and marketing of plain paper office copiers"; and to "perfect and enlarge an industrial monopoly with respect to those businesses" -- all as alleged in paragraph 25 -- necessarily involves an inquiry into the

impact of Xerox' conduct on SCM (as well as other competitors).

The same is true of the allegations of paragraphs 26 and 27. Here again SCM is specifically mentioned. These paragraphs allege that, since 1961, Xerox has built upon its allegedly unlawfully acquired monopoly by engaging in the specific "anticompetitive" and "exclusionary" practices alleged in paragraph 27 and that such "acts and practices have had the actual and probable effects . . . of suppressing, foreclosing and restraining competition by SCM and others." (Emphasis added). It is difficult to conceive of a clearer admission of the fact that impact and violation are inextricably "interwoven" in this case.

The point is further underscored by paragraph 28 of the complaint, which alleges, inter alia:

> "(b) Xerox excluded and restrained potential competitors including SCM from engaging in the manufacture and marketing of plain paper office copiers;
>
> * * *
>
> "(c) research and development by others with respect to the skill and technology and the manufacture of plain paper office copying has been restrained;
>
> "(f) Xerox has excluded, restrained and hampered potential and actual competitors from seeking to compete for and to obtain the benefits of the services of most of the world's personnel who have technical competence and experience in xerography;
>
> * * *

"(h) potential and actual plain paper office copier competitors face the risk of early obsolescence of their copiers;" (Emphasis added).

Manifestly, the factual invalidity of each of these allegations cannot be determined by the jury without a searching inquiry into the impact of Xerox' alleged acts on SCM and others.

In short, SCM's present attempt to divorce violation from impact runs counter to the very theory on which its complaint is founded. It claims that Xerox is a monopolist because it has excluded actual and potential competitors. To make out a case it thus must prove Xerox' power in a relevant market and show that this power was acquired or maintained through conduct which prejudiced its competitors.

A graphic illustration of how a charge of monopolization cannot be tried without consideration of the impact of the defendant's acts on its competitors (including the plaintiff) is provided by Judge Christensen's recent decision in Telex Corp. v. International Business Machines Corp., 5 CCH Trade Reg. Rep. (special supplement Sept. 24, 1973) -- a case, significantly enough, which determined all issues in a single trial. Even a brief sampling of quotations from the court's extensive opinion demonstrates beyond question that issues of impact were inseparably intertwined with those of violation.

Thus, in Section V of the opinion, which dealt

with whether IBM possessed monopoly power, the court stated:

> "The strength of competitors is relevant to an assessment of market power . . . . Difficulty in entering, weakness of competing companies and dependence of competitors upon dominant forces in the market are among indicia of market control on the part of an alleged monopolist." (p. 20).

And in concluding that IBM did possess the requisite power, the court found:

> "On the basis of . . . direct testimony as to IBM's domination of the relevant markets and submarkets, and the effect upon competitors in this market and submarkets of its predatory competitive practices, . . . I find IBM possessed monopoly market power . . . ." (p. 24; emphasis added).

Turning to the question of whether IBM willfully maintained such power, the opinion is replete with references to the impact of IBM's challenged practices on Telex and other plug compatible manufacturers. The following quotations are illustrative:

> "IBM's 2319B price cut substantially impacted its plug compatible competitors' revenues and profits by reason of responsive price reductions which IBM had anticipated would have to result, but it did not succeed in fully protecting IBM's installed base." (p. 27).

* * *

> "Immediately after IBM's announcement of the 2319B, Telex negotiated the 28% price reduction from its supplier ISS for the 2314-type devices it was buying. Telex, other peripheral equipment manufacturers, and some leasing companies dropped their prices for the 2314-type devices to levels substantially under those of IBM." (p. 28).

* * *

> "IBM's 2319B announcement . . . failed to contain the growth of IBM's plug compatible competition during the first quarter of 1971. The latter continued to make strong advances with its installations in the 2314 disk area." (Id.).
>
> * * *
>
> "IBM's plug compatible competitors as expected by IBM made competitive price reactions to the Fixed Term Plan. By June 17, Telex became the fourth plug-compatible competitor to announce a price reduction; but even with such price reductions the plug compatible competitors could not successfully compete with the Fixed Term Plan." (p. 33).

The Telex case merely illustrates what is self-evident here: It is impossible to try the violation issue in this or any other monopolization case separate and apart from the issue of the impact of the defendant's challenged conduct on its competitors (including the plaintiff in a private suit). No antitrust case has ever been tried in such a manner; and it cannot be done here.

The fact that courts have on occasion separately tried the issue of the quantum of damages in a private antitrust action does not support SCM's request for a separate trial on the issue of violation alone.* For the very cases which have severed the measure of damages issue for later disposition have tried the entire issue of liability (violation and impact) at the first trial.

*In Point III, infra, we show that even a separate trial as to all issues other than the quantum of damages would be inappropriate here.

Thus, in Goldfarb v. Virginia State Bar, 355 F. Supp. 491 (E.D. Va. 1973), which involved a charge of conspiracy to fix attorneys' fees and "came on for hearing on the issue of liability only," three of the findings of fact dealt with the specific impact of the violation on the plaintiffs. See findings 5, 7 and 8 at 355 F. Supp. at 498. See also, e.g., State Wholesale Grocers v. Great A & P Tea Co., 154 F. Supp. 471, 473, 505 (N.D. Ill. 1952), modified on other grounds, 258 F.2d 831 (7th Cir. 1958), cert. denied, 358 U.S. 947 (1959) ("the issue of liability, including the issue of the fact of damage, was severed for trial from the issue of the amount of damages" (154 F. Supp. at 473)) ("There is no evidence that any plaintiff lost sales or customers or profits as a result of [A & P's conduct]" (154 F. Supp. at 505).

SCM's reliance on Union Leader Corp. v. Newspapers of New England, Inc., 180 F. Supp. 125 (D. Mass. 1960), modified on other grounds, 284 F.2d 582 (1st Cir. 1961), cert. denied, 365 U.S. 833 (1961) (Pl's. Mem. p. I-13), is totally misplaced. Far from supporting SCM's position, the case and its sequel (not cited by SCM) graphically demonstrate the danger of ordering separate trials in private antitrust cases.

What happened in the Union Leader litigation was this: The district court tried the issue of antitrust liability (i.e., violation and impact) separately and, having found liability, referred the issue of damages

to a master, analogizing the case to patent infringement suits where such references are routine. On appeal from the master's finding of no damages, the First Circuit reversed, noting that the trial court's finding of liability inherently determined that there had been injury. Haverhill Gazette Co. v. Union Leader Corp., 333 F.2d 798, 803 (1st Cir. 1964), cert. denied, 379 U.S. 931 (1964). Judge Aldrich's opinion, which sharply criticized the bifurcated trial precisely because, in a private antitrust case, there is no liability without impact, is most instructive:

> "It is here [in the analogy to patent cases] that the difficulties, and they are serious, commence . . . . [T]he issues of patent infringement and damages are separate and clear-cut. Although ascertainment of damages may involve difficult questions of apportionment . . ., there is no overlapping of the issues [of liability] determined by the court . . . and those [of damages] referred [to the master]. In a private antitrust action liability and damages are not separate. Granting that an injunction may require a finding of merely threatened loss, . . . a partial decree on all issues of liability, however considered, implies much more. One cannot think of private liability for violation of the antitrust laws except in terms of impact and damage." (333 F.2d at 802).*

* SCM cites only two other private antitrust cases in support of its motion for a separate trial, neither of which is germane. Ellingson Timber Co. v. Great Northern Ry., 424 F. 2d 497 (9th Cir. 1970), cert. denied, 400 U.S. 957 (1970) (Pl's. Mem. p. I-11), affirmed the district court's limitation of discovery to two issues raised as affirmative defenses -- limitations and subject matter jurisdiction -- matters plainly separable from issues going to the merits. Reines Distributors, Inc. v. Admiral Corp., 257 F. Supp. 619 (S.D.N.Y. 1965) (Pl's. Mem. p. I-11), ordered a separate trial of the discrete issue of whether one of defendant's branches was a "purchaser" within the meaning of the Robinson-Patman Act, a separable question which has no bearing whatsoever on the propriety of a separate trial of the issue of violation.

In sum, SCM's motion for a separate trial on the issue of violation -- failing as it does to recognize the inseparability of the issues of violation and impact in a monopolization case -- is ill-conceived, contrary to law and would totally subvert the purpose of Rule 42(b).

II

MOREOVER, SEPARATING VIOLATION AND IMPACT FOR TRIAL WOULD SERVE NO USEFUL PURPOSE SINCE IMPACT WOULD STILL HAVE TO BE ASSESSED BY THE JURY BEFORE A FINDING OF LIABILITY COULD BE MADE OR APPROPRIATE INJUNCTIVE RELIEF DECREED.

There is another cogent reason why the issue of the impact of Xerox' acts on SCM should not be tried separately from that of violation: Such a separate trial

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The other, non-antitrust, cases which SCM cites are similarly inapposite. Thus, Western Geophysical Co. v. Bolt Associates, Inc., 50 F.R.D. 193 (D. Conn. 1970) (Pl's. Mem. p. I-13), ordered a separate trial of the issues of patent validity and infringement in a counterclaim, leaving all other issues of breach of contract and antitrust violation for joint adjudication. Polaroid Corp. v. Commerce International Co., 20 F.R.D. 394 (S.D.N.Y. 1957) (Pl's. Mem. p. I-11), and Shepard v. International Business Machine Corp., 45 F.R.D. 536 (S.D.N.Y. 1968), ordered separate trials of liability (i.e., validity and infringement) from damages in a patent infringement action. Sinclair Refining Co. v. Jenkins Petroleum Process Co., 289 U.S. 689 (1933) (Pl's. Mem. p. I-11), involved separate trials of liability and damages in a breach of contract action, and Joseph v. Donover Co., 261 F.2d 812 (9th Cir. 1958), a similar separation of liability and relief in a suit to impose a trust on corporate stock. All of these cases merely demonstrate that, where separate issues are involved, separate trials may be held. Not one of them has any bearing on the issue before this Court: whether the issue of violation in a monopolization case can be tried separately from the issue of the impact of defendant's acts on its competitors, including plaintiff.

would serve no useful purpose. Whether the focus is on SCM's damage claim or on its request for injunctive relief, the plain and simple fact is that a finding of violation without impact would accomplish nothing. For even if a violation were found, it would still be necessary to determine its impact on SCM before a finding of liability could be made against Xerox on SCM's damage claim; and it would be impossible to fashion appropriate injunctive relief without knowing which, if any, of Xerox' past practices had actually affected competitors (including SCM) and the nature of that effect -- determinations which, because of the indispensable requirement of a showing of impact in the damage action, must be made by the jury.

A. Xerox Cannot Be Held Liable To Plaintiff On Its Damage Claim Unless Impact Is First Found.

As we have already noted (pp. 11-13, supra), there can be no finding of liability in a private antitrust damage case without a determination that the defendant's allegedly unlawful conduct in fact proximately injured the plaintiff in its business or property. For this reason, even if Xerox were found in a separate trial to have violated the antitrust laws, SCM would not necessarily be entitled to recover one cent of damages; it would

still have to prove that the particular violation in fact caused it injury as well as the amount of its damages. In this respect a private plaintiff such as SCM differs markedly from the government. As the Supreme Court made clear in United States v. Borden Co., 347 U.S. 514, 518 (1954):

> "The private-injunction action, like the treble-damage action under § 4 of the Act, supplements government enforcement of the antitrust laws; but it is the Attorney General and the United States district attorneys who are primarily charged by Congress with the duty of protecting the public interest under these laws. The Government seeks its injunctive remedies on behalf of the general public; the private plaintiff, though his remedy is made available pursuant to public policy as determined by Congress, may be expected to exercise it only when his personal interest will be served."

Thus, whereas the government is entitled to injunctive relief under Section 4 of the Sherman Act and Section 15 of the Clayton Act* upon a showing of violation,**

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*Both Sections read in pertinent part as follows:

> "The several district courts of the United States are hereby invested with jurisdiction to prevent and restrain violations of this act; and it shall be the duty of the several district attorneys of the United States, in their respective districts, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations."

**In a monopolization suit like the case at bar, the government, of course, would have to prove that the defendant had monopoly power and that it willfully acquired or maintained that power

a private suitor, such as SCM, whether it seeks injunctive relief or damages, has standing to sue only on the strength of its "personal interest." Unless a private party can show that he himself is "threatened [with] loss or damage" by an antitrust violation -- not merely that the public generally may be injured -- he cannot sue for an injunction.* See,

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in violation of the antitrust laws, so that the exclusionary effect on competition of the defendants' practices would be a relevant consideration. However, the government, unlike the private suitor, would not have to prove injury to the business or property of any particular competitor. The fact that private injury need not be proved in a government injunctive action clearly distinguishes the request made by four IBM competitors that the government seek a separate trial on the issue of violation in the IBM case. (See Pl's. Mem. pp. I-5-6). A separate trial on the contents of a decree after trial of the violation issue raises no problems in a government case since a finding in the violation trial adverse to the defendant would ipso facto mean that the plaintiff was entitled to some relief. This, of course, is not true in a private damage action.

*The pertinent language of Section 16 is as follows:

> "That any person, firm, corporation, or association shall be entitled to sue for and have injunctive relief, in any court of the United States having jurisdiction over the parties, as against threatened loss or damage by a violation of the antitrust laws, including sections two, three, seven, and eight of this Act, when and under the same conditions and principles as injunctive relief against threatened conduct that will cause loss or damage is granted by courts of equity, under the rules governing such proceedings." (Emphasis added).

e.g., Advance Business Systems & Supply Co. v. SCM Corp., 415 F.2d 55, 63 (4th Cir. 1969), cert. denied, 397 U.S. 920 (1970); Burkhead v. Phillips Petroleum Co., 308 F. Supp. 120, 123 (N.D. Cal. 1970); Revere Camera Co. v. Eastman Kodak Co., 81 F. Supp. 325, 331 (N.D. Ill. 1948); Tivoli Realty, Inc. v. Paramount Pictures, 80 F. Supp. 800, 805-06 (D. Del. 1948). And unless he can show that his business or property has already sustained injury, he cannot sue for damages.

In short, SCM does not stand in the shoes of the Federal Trade Commission. The proceeding now pending before the Commission under Section 5 of the Federal Trade Commission Act will determine whether Xerox has monopolized the alleged market of manufacturing and marketing plain paper office copiers and, if so, the appropriate relief that should be entered to protect the public interest. SCM has standing before this Court only to assert its own private rights -- which means, with respect to SCM's treble damage claim, that a finding of violation is of no consequence standing alone and that SCM must prove that it was injured as well before it can establish liability.

The fact that impact is a prerequisite to a finding of liability in a private antitrust damage action explains why the courts which have invoked Rule 42(b) in an antitrust context have invariably disposed of the entire liability question in one trial; no court has adjudicated

the issue of violation alone. See, e.g., Goldfarb v. Virginia State Bar, 355 F. Supp. 491 (E.D. Va. 1973); State Wholesale Grocers v. Great A & P Tea Co., 154 F. Supp. 471 (N.D. Ill. 1952), modified on other grounds, 258 F.2d 831 (7th Cir. 1958), cert. denied, 358 U.S. 947 (1959); and McClain v. Socony-Vacuum Oil Co., 10 F.R.D. 261 (S.D. Mo. 1950). As noted in O'Donnell v. Watson Bros. Transportation Co., 183 F. Supp. 577, 587 (N.D. Ill. 1960), it serves no purpose to invoke Rule 42(b) in a private treble damage action to make an early determination solely of violation because "damages must be proved in order to establish liability."

B. A Separate Trial Of The Issue Of Violation Would Serve No Purpose From The Standpoint Of Plaintiff's Injunctive Claim.

Trying the issue of violation separately from impact, even if it were possible to do so, would serve no useful purpose from the standpoint of SCM's injunctive claim either. This is because the Court could not even begin to fashion appropriate injunctive relief -- much less grant the Draconian relief sought by SCM -- in the absence of findings as to the market impact of the specific acts and practices by Xerox which are at issue here. This is not to say that an injunction may never be granted unless a private plaintiff proves past injury. Under Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969), it is possible for a plaintiff to obtain an injunction if he

shows a threat of future injury. But the drastic relief sought by SCM in this case proceeds on the premise that it and other competitors have been excluded from the market for a number of years by reason of past monopolization, not simply that there is a prospect of future exclusion. Since this impact issue is squarely involved in SCM's legal claim for damages, it must be determined by the jury under the doctrine of Beacon Theatres, Inc. v. Westover, 359 U.S. 500 (1959).

The necessity of an impact determination on the question of ultimate equitable relief is apparent from paragraph 32 of the complaint, where SCM claims that the injunctive relief to be ordered should be whatever is necessary to assure that:

> "(a) full and fair competition with respect to the skill, technology, manufacture and marketing of plain paper office copiers in American interstate and foreign commerce will be established;
>
> "(b) SCM and others will be afforded a full and fair opportunity to compete at the research, manufacturing and marketing levels;
>
> "(c) users of plain paper office copiers and the public will have the benefits of full and fair competition at each of those levels; and
>
> "(d) the present and prospective effects of Xerox's monopolistic position and anticompetitive acts and practices will be effectively and permanently eliminated." (Amended Complaint, p. 15).

It is plainly impossible to find that particular Xerox practices must be enjoined to further these goals, and specifically, in order to afford "SCM and others" "a full and fair opportunity to compete," without actually examining the market impact of each such practice in the past and determining which, if any, of them have prevented such competition.

Examination of the specific injunctive remedies sought by SCM reenforces the point. In paragraphs 35 and 37 of the complaint, for example, SCM calls for no less than the divestiture of Xerox' "research, patents, technical and manufacturing facilities and assets in the field of xerography," and then, for good measure, into two "New Manufacturing Companies." To explain the need for two such companies, SCM alleges that dual entities will "more speedily negate the effects of Xerox' present position and acts at those levels." (Emphasis added). In short, even SCM recognizes the necessity, before obtaining a decree of divestiture, for a factual determination that such relief is required because of the anticompetitive effects of Xerox' prior conduct.*

*Xerox disputes the right of a private party to secure a decree of divestiture in an antitrust case. But that issue, of course, is not presently before the Court for decision.

Similarly, the Court could not conceivably impose the marketing shackles on the New Manufacturing Companies which are sought in paragraphs 39(c), 39(d), 40, 41 or 42 of the complaint without first determining that specific past activities of Xerox adversely affected Xerox' competitors.

By the same token, the Court could not decide whether the compulsory patent and know-how licensing called for by paragraphs 39(a) and 39(b) are warranted without assessing the market impact on SCM and others of Xerox' patents and technology.

The fact that such impact findings must be made to support any injunctive relief that may be ordered utterly destroys any possible utility of a separate trial on violation alone for purposes of SCM's injunctive claim. This is because impact is squarely at issue in SCM's treble damage count. As a consequence, Beacon Theatres Inc. v. Westover, 359 U.S. 500 (1959), and Dairy Queen, Inc. v. Wood, 369 U.S. 469 (1962), mandate that the jury -- and not the Court -- decide the impact question. Only after the jury has made that decision may the Court, acting upon appropriate special findings by the jury, determine the appropriate scope of injunctive relief. The Supreme Court could not have said it more clearly that it did in Dairy Queen:

> "The holding in Beacon Theatres was that where both legal and equitable issues are presented in a single case, 'only under the most imperative circumstances, circumstances which in view of the flexible procedures of the Federal Rules we cannot now anticipate, can the right to a jury trial of legal issues be lost through prior determination of equitable claims.' That holding, of course, applies whether the trial judge chooses to characterize the legal issues presented as 'incidental' to equitable issues or not." (369 U.S. at 472-73).

Thus, since it is the jury that must decide the question of impact in any event, and since the jury must deal with that issue before permanent injunctive relief can be decreed, no purpose would be served in having separate trials of violation and impact. Put another way, even if the Court were to order a separate trial on the violation issue, and even if the jury at such a trial were to find that Xerox had violated the antitrust laws, the Court could not then determine whether SCM was entitled to the injunctive relief it seeks because the impact issue (which would be a prerequisite to such a determination) would still have to be determined by the jury in the second trial on the damage claim. In such circumstances, a separate trial, even if legally permissible, would be senseless.

III.

SEPARATION FOR TRIAL PURPOSES OF THE ISSUE OF QUANTUM OF DAMAGES, WHILE LEGALLY PERMISSIBLE IN AN APPROPRIATE CASE, WOULD BE CONTRARY TO THE OBJECTIVES OF RULE 42(b) HERE BECAUSE MUCH OF THE EVIDENCE RELEVANT TO LIABILITY WOULD HAVE TO BE REPEATED AT THE LATER TRIAL ON DAMAGES.

Inasmuch as Rule 42(b) is premised essentially on considerations of judicial economy, where separate trials are apt to produce an increase in trial time rather than a decrease, the courts have consistently refused to order separation. As Professor Moore explains:

> "If . . . the preliminary and separate trial of an issue will involve extensive proof and substantially the same facts as the other issues, or if any saving in time and expense is wholly speculative, a separate trial will be denied." (7 Moore, Federal Practice, ¶ 2388 at pp. 280-81).

Thus, in United States v. Marietta Mfg Co., 53 F.R.D. 390 (S.D. W.Va. 1971), an action for breach of contract, the court recognized, as the government argued, that a combined trial of all the issues of liability and damages would present "certain difficulties" because of the "number and complexity" of the many factual and legal issues to be decided. Nevertheless, it ruled against separate trials of liability and damage because the duplication of evidence that would result would "unduly lengthen the already protracted proceedings in this case" (53 F.R.D. at 400).

The same consideration was involved in the denial of separate trials as to liability and damage on the private antitrust claim asserted in McClain v. Socony-Vacuum Oil Co., 10 F.R.D. 261, 262 (S.D. Mo. 1970):

> "There is, therefore, no issue of liability separate and apart from the claimed damages. It would be repetitious, therefore, to spend one day or two days hearing testimony on the question of damages so that it may be determined whether there was a liability." (10 F.R.D. at 262).

It is obviously not possible at this early stage of the case to say definitively what SCM will choose to rely upon in an effort to establish that it "has been damaged in the amount of at least $145 million" (Complaint, ¶ 58). However, it is safe to predict that a good deal of SCM's damage evidence will be a repetition of that offered to prove "exclusionary" and "anticompetitive" effects. Again, Telex v. IBM is instructive. There, the plaintiff offered as evidence of monopolization facts showing that before IBM adopted particular marketing strategies it prepared internal analyses indicating the extent to which adoption of the practice would affect competitors. The same evidence was relied upon to find violation, impact, and the extent of Telex' damages, the trial judge looking to IBM's forecasts of Telex' sales in comparison with those which Telex actually made. (p. 38).

Accordingly, while it is true that the issue of quantum of damages can (as a matter of law) be tried separately after the question of liability (violation plus impact) is determined, and that this has been done on occasion in antitrust cases, it would be inappropriate to do so here. For the extent of duplication of evidence that two trials would entail would "unduly lengthen the . . . protracted proceedings" that are already to be expected. United States v. Marietta Mfg. Co., supra. In a complex antitrust case such as this, it is particularly important to avoid the confusion engendered by a piecemeal determination of the issues. SCM's claimed damages must be established to have proximately resulted from the precise acts found to constitute unlawful monopolization. And, in light of the complexity of the issues, a separate damage proceeding might well result in Xerox being charged with the consequences of acts not found to be unlawful. As the Supreme Court stated in Beacon Theatres:

> "Since the issue of violation of the antitrust laws often turns on the reasonableness of a restraint on trade in the light of all the facts, see, e.g., Standard Oil Co. v. United States, 221 U.S. 1, 60, it is particularly undesirable to have some of the relevant considerations tried by one fact finder and some by another." (359 U.S. at 508).

In the final analysis, a separate trial on the measure of damages here would be duplicative and wasteful. If such a trial were held before a jury different from the

one which determined liability, the proof on quantum of damages would be incomprehensible unless the second jury also heard the evidence of injury already introduced at the first trial. On the other hand, if the issue of damages were tried at one and the same time as the issue of liability, the jury (assuming it found a violation and injury) would only have to place a price tag on the extent of that injury. The only way to have a separate trial on the issue of the amount of damages and yet avoid repetition of the proof of injury would be to order the second trial to follow immediately after the first before the same jury.*

It follows that it would be wasteful and inefficient to stay discovery on the issues of damages at this time, even if a separate damage trial on that issue were to be ordered. For one thing, a stay would necessitate a delay between trials, thus requiring separate juries, with the duplication and possibility of error that such a procedure entails. Moreover, discovery on the impact issue is likely to involve the same SCM witnesses as those who would give testimony on the issue of damages (with the possible exception of an accountant), and, in the words of Rule 42(b), it would hardly be "conducive to expedition and economy" to depose these witnesses twice.

*Such a procedure would avoid the serious constitutional question of whether the Seventh Amendment permits different juries to assess liability and damage. Cf. United Air Lines, Inc. v. Wiener, 286 F.2d 302 (9th Cir. 1961), cert. denied, 366 U.S. 924 (1961).

IV

IN NO EVENT COULD A SEPARATE TRIAL ON THE ISSUE OF VIOLATION POSSIBLY BE HELD IN MAY, 1974 IN LIGHT OF XEROX' RIGHT TO FULL DISCOVERY ON THE ISSUES RAISED BY THE COMPLAINT.

The most extraordinary aspect of SCM's motion is its request for a trial date of May 1, 1974. Even if SCM were granted a separate trial on the issue of violation -- which, as we have demonstrated, would be wholly inappropriate -- SCM would not be satisfied. It wants to proceed to trial pell mell without according Xerox an opportunity to discover facts relevant to negating the allegations of the complaint, thus depriving Xerox of its fundamental right to a fair trial on the serious charges against it. The plain fact is that, if Xerox is afforded the discovery to which it is entitled on the market issue alone, a trial in May, 1974 is impossible, as SCM concedes (Pl's. Mem. p. II-4). But even if Xerox' discovery on market definition were curtailed, the discovery necessary on the other issues raised by the complaint could not conceivably be completed in six months.

The second section of SCM's memorandum is devoted to a lengthy essay on market definition supposedly showing that this question really need not be litigated at all and that Xerox is entitled to little if any discovery on the issue.* This is certainly not the proper time to debate

*According to SCM's complaint (¶ 10), the relevant market consists of plain paper office copiers. This is denied in Xerox' answer (¶ 10). Xerox maintains that the market, properly defined, includes offset, stencil and spirit equipment as well as plain and coated paper copiers. See Xerox' Answer (¶ 8) to the complaint of the Federal Trade Commission in Docket 8909.

the central issue of market definition in this litigation; and Xerox has no intention of arguing the merits of that issue before the pertinent evidence has been obtained and presented to the Court.* But the suggestion that the defendant in a monopolization case is not entitled to discovery to substantiate its view of the market is patently frivolous. Each and every case relied on by SCM was decided after a trial on the basis of a complete record based on full discovery. Market definition is a matter of proof, not a legal abstraction, and SCM cannot foreclose Xerox from discovering what SCM's files and those of other competitors show with respect to the area

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*Nevertheless, it may not be amiss to point out that SCM's present view of the relevant market, which is limited to plain paper office copiers and excludes competitive coated paper equipment, is sharply at odds with the position which SCM took when it petitioned for certiorari in Advance Business Systems & Supply Co. v. SCM Corp., 415 F.2d 55 (4th Cir. 1969), cert. denied, 397 U.S. 920 (1970). On that occasion, SCM included coated paper copiers together with plain paper copiers in the relevant market, advising the Supreme Court as follows:

> "When SCM entered the business in 1962, Xerox Corporation ('Xerox') was already established as the dominant competitive factor in the office copying market. In 1967 Xerox controlled approximately 60% of the office copying market in the United States; by contrast, SCM accounted for only 3% of the market. By 1967, there were 26 manufacturers of electrostatic copying machines, as well as numerous manufacturers and sellers using other copying processes; as the appellate court recognized, 'the office copying machine market is actively competitive, with customers changing readily from one copier to another.'" (Petition for Certiorari at p. 3).

of effective competition. As the Supreme Court pointed out in Brown Shoe Co. v. United States, 370 U.S. 294, 325 (1962), one of the criteria pertinent to a determination of the relevant market is the factor of "industry recognition," and SCM is clearly part of the industry.

Moreover, even if Xerox were not permitted any discovery whatever on the market definition issue, it would still be impossible to try the issue of violation in May, 1974 in light of the breadth of the other allegations of SCM's complaint.

By charging Xerox with monopolization on a worldwide basis of "the skill and technology and manufacture and marketing of plain paper office copiers" (¶ 1(a)), SCM has drawn into controversy virtually every aspect of this highly complex business throughout the four corners of the earth. Even a cursory examination of the complaint reveals the extensive discovery which will be required to provide Xerox with the facts needed for its defense.

For example, paragraph 24(b) alleges that Xerox' "powerful patent structure" gave it "the power to exclude and block potential competitors from entry into the business of manufacturing and marketing plain paper office copiers." To defend itself against such a charge, Xerox will need to discover the facts with respect to each potential competitor's ability to enter the market,

its efforts, if any, to do so, the results of such efforts, and the effects of Xerox' patent position on such entry -- not just in the United States but all over the world.

Similarly, paragraph 25 asserts that "by 1961 or no later than 1963, Xerox had acquired and achieved worldwide control and monopoly power over the patented and unpatented skill and technology of plain paper office copying" which gave it "the monopolist's power to . . . exclude competitors and suppress and restrain any potential or actual competition . . . ." Plainly, to defend against this allegation Xerox is entitled to discover facts concerning the state of the relevant technology throughout the world, as well as Xerox' technological position in relation to that of its competitors and potential competitors.

And paragraph 27, in its twenty-one subparagraphs, alleges an omnibus list of purported exclusionary practices, all of which will require extensive discovery into the question of whether they resulted in the exclusion of competition.

In short, SCM's request for a separate trial in May, 1974 is totally unrealistic and completely disdainful of Xerox' legitimate discovery needs on the multiplicity

of complex issues raised by the complaint*-- so much so that the conclusion is irresistible that SCM's real objective here is its stated alternative of having its motion for a preliminary injunction heard at that time. But that raises an important question of law which should be briefed and decided before the Court and the parties are obliged to proceed down a path which, Xerox submits, will be a blind alley. That question, simply put, is whether the type of relief that SCM is seeking in its prayer for a preliminary injunction would so alter the status quo during the pendency of this proceeding -- indeed, would accord SCM

* It is noteworthy that, while Xerox has made a very substantial production of documents in response to SCM's discovery requests, SCM thus far has not provided any discovery whatsoever to Xerox.

In response to SCM's interrogatories and document requests, Xerox has already produced approximately 70,000 pages of documents gathered in connection with the FTC and Litton cases and has made available for SCM's inspection tens of thousands of additional documents from the IBM case. These documents are the product of four years of discovery. In addition, Xerox has filed 26 pages of partial interrogatory answers and produced another 5,700 pages of documents to SCM. Finally, after negotiations between the parties, SCM and Xerox have now resolved all of Xerox' objections to certain SCM discovery requests (filed October 24, 1973) except for the matter of Xerox' time to respond, a question which will be presented to the Court at the same time as SCM's motion for a separate trial.

In contrast, Xerox filed document requests directed to SCM on or about September 13, 1973, and, after an extension, received SCM's objections on or about November 15. Incredibly, SCM has objected to every single one of Xerox' requests. While discussions were proceeding in the successful effort to resolve Xerox' objections to SCM's discovery, Xerox was unable to make an appointment with SCM's counsel to discuss SCM's objections until November 28, 1973, which SCM's counsel then cancelled on the ground that he was unwilling to begin such discussions until discussions were concluded on SCM's discovery of Xerox. As a result, as of this date, Xerox has not been able to make any progress towards resolving SCM's objections and obtaining discovery.

relief which it is seeking after a full trial on the merits -- as to make it a foregone conclusion that SCM would in no event be entitled to such relief pendente lite. The Court having previously indicated that it would welcome the submission of briefs on this question, Xerox respectfully suggests that the Court should establish dates for the briefing of this matter and that no date be set for the hearing on SCM's motion for a preliminary injunction prior thereto.

V

PLAINTIFF'S REQUEST FOR A STAY OF DISCOVERY ON ALL PATENT ISSUES IS UNWARRANTED AND CONTRARY TO THE PROCEDURE BEING FOLLOWED IN THE LITTON CASE.

SCM also seeks a severance and stay of discovery on all patent claims raised by Xerox' counterclaims and by the claim for declaratory relief set forth in the third claim of the complaint.* While Xerox does not oppose a severance and separate trial of these patent claims, since they clearly present issues which are separate and distinct from SCM's antitrust claims, it objects to the requested stay.

*SCM's Third Claim seeks, inter alia, a judgment that U.S. Patent No. 3,121,006 ("the '006 patent"), is invalid and unenforceable, and for damages; Xerox' First Counterclaim seeks payment of past royalties as a result of a license contract between the parties; Xerox' Second Counterclaim seeks damages and injunctive relief as a result of SCM's infringement of the '006 patent after the termination of the aforesaid contract; and Xerox' Third Counterclaim seeks damages and injunctive relief as a result of SCM's infringement of U.S. Patent No, 3,672,884 ("the '884 patent").

Memorandum in Opposition to Plaintiff's Motion for Separate Trial and Ancillary Relief

In support of a stay, SCM argues that similar patent issues are being litigated in the action between Xerox and Dennison that is pending in the Southern District of New York and that an adverse decision would preclude Xerox on those claims here under Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313 (1971). This argument, however, does not provide a substantial justification for a stay of discovery.

To begin with, SCM ignores the fact that one of the two patents asserted by Xerox here is not involved in the Dennison litigation at all, namely, Xerox' '884 patent.* Under no circumstances could a determination in the Dennison case obviate litigation on that patent in this Court. Hence, there is no conceivable reason why the pendency of that suit should stay discovery or trial of Xerox' infringement claim here with respect to its '884 patent.

Insofar as Xerox' other patent ('006) is concerned, SCM's argument proceeds on the totally unwarranted assumption that the patent will not be sustained in Dennison. But Xerox has full confidence that it will be sustained and that Xerox will continue to be in a position (as it is now) to assert its patent against SCM as well. In the meantime, there is no justification for preventing Xerox from pursuing discovery with respect to its patent

*The Xerox patent involved both in Dennison and here is the '006 patent.

claims here -- including the issue of infringement by SCM (an issue not involved in Dennison) -- and readying them for trial. As the Ninth Circuit stated in Filtrol Corporation v. Kelleher, 467 F.2d 242, 245 (9th Cir. 1972), cert. denied, 409 U.S. 1110 (1973), in affirming the denial of a stay in analogous circumstances:

> "Blonder-Tongue does not require that a district court with a justiciable controversy before it await the outcome of a pending action in another district.
>
> * * *
>
> "Moreover, the pendency of the Connecticut action does not guarantee that the validity issue will not ultimately have to be tried in the California action. This is because Blonder-Tongue will apply only if the issue of validity is decided against Mobil in the Connecticut case. If the patents are held valid in that case, petitioners could retry the issue in the California case. Also, if the patents are held invalid in the Connecticut case; Mobil could still attempt to show, in the California case, that it 'did not have "a fair opportunity procedurally, substantively and evidentially to pursue [its] claim the first time" ' in the Connecticut case. Blonder-Tongue, supra, 402 U.S. at 333, 91 S.Ct. at 1445."

As this Court pointed out just this past March, in Xerox Corp. v. Litton Industries (Civil No. 15,705) (March 30, 1973), it has "an obligation to assist in readying for trial all issues properly within its jurisdiction." The same rule that applies to Litton should apply to SCM.

CONCLUSION

Stripped to its essentials, this motion boils down to an attempt by SCM to deprive Xerox of its right to a full and fair trial of the serious charges against it. SCM seeks a separate trial of the issue of violation without reference to competitive impact, which is impossible in light of the complaint's allegations and impermissible as a matter of law. It purports to seek such a trial within six months and cavalierly asserts that this can be accomplished by denying Xerox the opportunity to discover the facts necessary to put in a defense. Alternatively, SCM asks for a May 1974 hearing on a motion for a "preliminary" injunction which, if granted, would involve not the usual maintenance of the status quo pendente lite, but the award of drastic affirmative relief of the type that could only be awarded, if ever, after a full trial on the merits. Moreover, it is manifest that any trial of the issues sought to be litigated by SCM within a six-month period, whether on a motion for a preliminary injunction or otherwise, would effectively deprive Xerox of its right to adequate discovery and a fair opportunity to defend itself.

All of this relief is sought within the rubric of a rule designed to foster convenience, expedition and economy without any demonstration of how such an extra-

ordinary procedure -- which would place SCM (the last of all the parties to sue Xerox) ahead of the F.T.C., Litton and every other litigant -- would in any way further such goals. In short, SCM's motion is legally unsound, practically unworkable and would make a travesty of justice. Accordingly, for all of the reasons set forth above, Xerox respectfully submits that:

(1) The issue of antitrust violation should not be separated for trial from the issue of impact (fact of damage);

(2) The issue of the quantum of damage should not be separated from the issue of liability (i.e., violation plus impact);

(3) Proceedings on all the antitrust issues involved in this case should go forward without any stay;

(4) The patent issues should be tried separately from the antitrust issues but not be stayed; and

(5) The Court should establish a schedule for the briefing of the legal question of whether the preliminary relief sought by SCM can in any event be granted, and that pending determination of that question, no date

be set for a hearing on SCM's motion for a preliminary injunction.

Respectfully submitted,

Dated: December 4, 1973

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PROCEEDINGS OF DECEMBER 7, 1973

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF CONNECTICUT

- - - - - - - - - - - - - - - - - - - -x

SCM CORPORATION,

Plaintiff,

vs.

XEROX CORPORATION,

Defendant.

- - - - - - - - - - - - - - - - - - - -x

Civil Action

No. 15,807

New Haven, Connecticut
December 7, 1973

B e f o r e:

Hon. JON O. NEWMAN, U.S.D.J.

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THE COURT: There are a lot of matters that apparently a lot of attorneys want to present. As far as the SCM-Xerox matters, is there some appropriate order to take these in?

MR. KAYE: I have discussed it with Mr. Robinson that we would start first with the Rule 42B and ancillary relief motion, which also comprehends the motion for preliminary injunction, setting down a hearing date. And we would then after that motion has been heard suggest that the motion of Rule 37 motion be argued, that is, on the time for Xerox to complete its production of documents. Mr. Gotkin, a colleague, will be handling that.

And the third motion that we have on is with respect to confidentiality, and my colleague, Mr. Rauchberg, will be handling that.

One other preliminary, as your Honor knows, from the papers that were submitted, SCM submitted its papers on the Rule 42 motion under seal by reason of the tentative confidentiality agreement under which the documents up to now that have been produced by Xerox, which they have marked as nontechnical confidential-technical confidential would not be disclosed by SCM's outside counsel staff to anyone, including not disclosing to any lawyers at SCM.

We also intend to hand up during the course of the argument a few additional papers. Now, in that regard, and I have discussed this with Xerox counsel before, there are present in the courtroom the SCM general counsel and members of his staff. Under the proposed confidentiality order by Xerox, while we disagree with it, and that's for the later argument, if it were entered by this Court, then, with respect to all the documents that we have here, we, as outside counsel to SCM, would be entitled to disclose it to inside SCM counsel so long as inside SCM counsel knew and understood and agreed that it would be used only in terms of preparation for this case and they, of course, are willing to abide by that, therefore, and I think Xerox counsel has agreed to this, SCM general counsel and members of his staff may remain in the courtroom for the hearing. There are Xerox people here, and beyond that, I do note there is at least one other gentlemen from another company who is here, another lawyer.

As to that, under our agreement, we have no right to waive anything, nor to request anything. It's entirely up to Xerox whether for the purposes of this argument, since I'm going to get into those materials, whether other people have to be asked to leave the courtroom. So I leave that to

Xerox counsel.

MR. SOBEL: We are willing to go along with having SCM inside counsel present, because under our proposal, they would be allowed access to the documents which I understand Mr. Kaye is talking about. He has assured me they will abide by the terms of our proposal unless and until the Court rules otherwise. However, with respect to other people that may be in the courtroom, and I see Herb Schwartz, who I know from the IBM case, is counsel for IBM, and I don't know who else may be here, they would not have access under our proposed order and, indeed, even under SCM's order, and to the extent those documents are discussed, we would have to ask they not be present.

THE COURT: Is the nature of the legal argument, which apparently will come up, on discovery issues touching these documents, is that right?

MR. KAYE: No, your Honor, it comes up on the issue of severance.

THE COURT: Will the content of the document be part of the argument? I am sure you will want to submit it and want me to look at it, and want to alert me to what parts you feel are pertinent, but will the oral argument identify the aspects that require secrecy?

MR. KAYE: The answer is: yes. As I do point to matters, I think that frankly that in pointing to it, I necessarily am going to have to make disclosures, let me -- we are going todiscuss in, I think -- in response to your question at the last pretrial conference, what is the irreparable injury to SCM, that is, in the future. That was raised on the question of preliminary injunctive relief and relates also to the question of relief for severance. I'm going to be getting into the 1972 long-range plan. I hope briefly, but nevertheless in doing it, I'm going to have to get to it.

Now, my own feeling, and this, I guess this is premature, my own feeling as to all the other documents, not one of them, is something that is confidential in the sense of trade secrets. They may have embarrassing information to Xerox, but with respect to the 1972 long-range plan, I think that -- I would be prepared to perhaps -- so that Mr. Schwartz, and I know they called and said they were coming up, and I explained what the problem was, perhaps if I can try to confine myself, maybe we could ask Mr. Schwartz to leave for five minutes or so. I will try to be as careful as I can. I hope my enthusiasm doesn't carry me away and mistakenly disclose something that I shouldn't.

They are all -- let me make this one point -- every document we have is a document that Xerox furnished to the FTC, and which Xerox turned overto us. I don't know the extent to which in the IBM case on the misuse that Xerox has turned over the same documents. If they had, then, there wouldn't be any need for it.

THE COURT: That were filed in the FTC proceeding or simply made available to the Commission?

MR. SOBEL: Under a confidentiality rule.

MR. KAYE: Only if the same documents have been turned over by Xerox to IBM, in which case Mr. Schwartz has already seen these papers.

MR. SOBEL: I believe there are some here, perhaps all that he has not seen and have not been produced in the IBM case.

THECOURT: I think your suggestion of trying to separate your argument ought to be pursued. I can understand why the broad issues raised would be of interest to counsel in other cases. Why don't you proceed with an effort not to disclose the content of the document that would be entitled to secrecy under the Xerox request. If there is some part of the argument that you want to further develop, then perhaps later in

the morning we can just very briefly have a closed hearing where you specifically alert me to those documents and the significance of their content.

MR. KAYE: Your Honor, may I hand up that document now? That is -- we refer toit in our brief. We refer to the long-range plan, and we refer to a comprehensive review of it. That's the document. I wonder at the appropriate juncture when I open this up, and I hope I can go through it in five minutes, at that time we will ask Mr. Schwartz to leave.

THE COURT: Before you filed a document that appears like this in this brown folder. It's headed -- the pertinent part, Exhibits 3, 4, 5, 8, 9 and 10, are claimed by Xerox to be confidential?

MR. KAYE: Yes.

THE COURT: So it's the contents of this document that you want under seal, is that right?

MR. KAYE: That's under seal, and also the document that I just handed you.

THE COURT: Is there anything else that you handed up in connection or filed in connection with these motions to be sealed?

MR. KAYE: Your Honor, these other two folders. This,

your Honor, is three additional exhibits to the one in your hand, the long one.

Your Honor, this is another document relating to capabilities, and it's a filing only again of documents, but in response to a new point that is information that I want to refer to in my argument in response to a new point that Xerox has raised in their answering papers.

Actually, your pointing to this raises the questions -- in my own mind, I thought all of these other documents really were not confidential, but since Xerox claims they are, there is going to be a good deal more in the argument that's going to get to what matters that Xerox claims are confidential than simply the long-range plan. There is going to be a lot. I will still try, your Honor, I will try, but may I say this: please, if I do tread into areas that you consider confidential, please interrupt me. I suppose that's ordinarily -- I don't ordinarily like to be interrupted, but I would appreciate if I do tread, please stand and stop me.

MR. SOBEL: I will oblige.

MR. KAYE: Your Honor, our original approach in the original complaint, as your Honor will recall, was that because of what we considered to be the enormous public and

private importance of what's going to happen in the future, that in that original complaint we suggested that the first claim for injunctive relief in all aspects of it be tried first, and all of the other matters, that is, the damages, important, but only o f private importance and not of pressing importance, and the patent matters all be deferred so that the first claim for injunctive relief, the entire claim be tried first. And we explain the reasons for that in that original complaint.

We did not anticipate that -- frankly, that Xerox would make a claim that it would want a trial by jury, and we did not anticipate that based on what has happened in other cases, including the IBM case, where, although IBM does not make an antitrust counterclaim, they do make a persuasive misuse counterclaim, and as to that counterclaim or as to any of the matters in the IBM case, patent matters which are subject to a jury trial claim, Xerox had not made a jury trial claim, so that it did come to us as a surprise that Xerox claimed their jury trial right, and it's their right.

In view of that, as your Honor knows from our two conferences, certain problems developed, and we reflected on it, worked on it, and developed the approach which we have presented

today and which we presented at our last conference, namely: let us get to the trial by jury of the common issue between the first claim and the second claim, the equitable and the legal claim and defer the questions of damages and relief. That is: damages as to past acts, the monetary damages, the damages of present and the likelihood of future damage relating to irreparable injury and relating to the equitable relief.

And this shaping is to try to meet three objectives and accommodate all of those objectives. One, SCM's legitimate interest and right to the most expeditious determination of its claims in equity. Xerox has claimed right of trial by jury, and the most economic and efficient use of the resources of all of the parties and certainly of this Court.

I should say at the outset that whichever way we turn, Xerox says: no. No to severance, no to staying questions of damages: that is, monetary damages, no to questions of the patent and even no to the question of hearing on a preliminary injunction because they say it's a futility, that there is nothing that this Court can do.

THE COURT: Not the patent severance, Ididn't understand them to oppose that.

MR. KAYE: I'm sorry. They have agreed to severance. What I'm talking about is to stay on the patent issues. What I would propose to do today is to deal first with severance.

I want to step back -- that we have got a lot of papers, I want to try to step back from them and see them from something at a distance and to deal with Xerox's position as they have expressed it in the brief, which they served on us Tuesday, and which we studied and which we think will not require on our part any further delivery of papers to the Court.

First, I would like to deal with the question of severance and stay, should the Court sever the question of violation, or perhaps more correctly, liability, from the question of damages and equitable relief and from patent and should the Court stay those other issues until we have had a determination?

Now, without regard -- and this first part of what I would like to present -- without regard to the question of when, whether it be made May 1, 1974 or when, appreciating, however, your Honor's remark at the pretrial conference, that it does make a different on severance whether by having the severance and stay we will be able to get to some place faster. I will come to that when we discuss severance.

Next, I would like to discuss the question of the preliminary injunction: that is, I would like to address ourselves, as I think we have in our brief, to the question you ask, which was, what is the irreparable injury that the Court will be dealing with if we had a hearing on a preliminary injunction insofar as

the status quo, because Xerox's counsel raised that question, and we think that in the papers that we originally filed and we filed here, we have dealt with that.

And third, I would like to deal with the question of whether this case can be tried by May 1, 1974, because we think all the more so after reading Xerox's papers that it can, and I want to go into the reasons for that.

Before I get to those three points, I think it would be worthwhile for me to make a preliminary point of view. In view of certain contentions that Xerox has made, to very quickly look at the other cases in which Xerox is a defendant involving the antitrust claim; first, in the Federal Trade Commission complaint involves a much broader area of allegations than does the complaint by SCM. The FTC complaint does deal with patents, they don't call it skill and technology as we go, but the FTC complaint goes into a completely separate area which this case does not involve, and that is all of the marketing practices of Xerox. Briefly, the FTC complains that -- alleges that Xerox has carried on a lease-only policy refusing to sell or having such high prices for their machines they can only be leased, something like the United Shoe type of issue. That issue is not here in the SCM case.

The Federal Trade Commission alleges that Xerox has a number of discriminatory pricing plans, in fact, something

over 35 plans, MUP and XDP.

and many different types of pricing plans whereby different customers pay different prices for the copies.

Xerox has answered and has raised very complex meeting competition defenses. The Federal Trade Commission also goes into the question of tying service with the machines, again, a problem that's not here.

They raise questions of tying, they raise questions of thealleged illegality of Xerox multimodule system.

Now, you have got patent skill and technology on one side, and you got this marketing on the other. That, insofar as we can see it, as far as we know about it, is going to involve a great deal of discovery down at the lower levels of consumers and users than the kind of discovery that's going to be involved here. In any event, it is an entire area of enormous magnitude which is not involved in this case, and like the Federal Trade Commission proceeding, the Litton case likewise, has both of those areas whereas the SCM case does not.

Now, in the FTC case, we just received the other day a copy of a joint application by the staff of the Commission and Xerox for a subpoena duces tecum addressed to 64 companies, one of which, and only one of which, is SCM.

That application, that is on public file, the

subpoena itself is not public, it's an application to the administrative law -- it's on consent. According to the application, it involves 38 specifications.

And quite evidently, from the description of the relevance of each specification, which is very brief, most of it deals with this question of market determination.

What I'm saying is that ahead in the FTC proceeding, just on this one subpoena addressed to 64 companies, is many months, if not many years, of discovery. The FTC staff counsel has agreed to it, and it is not for SCM or anyone else to say how the FTC should handle its case.

Needless to say, we feel that our case, as we have presented it, the complaint relating to skill and technology, is the prime factor here, the starting factor of the allegations out not to be handled that way and, frankly, if it's handled that way, it will be left to ultimate adjudication in the indeterminate future.

Now, the Litton case, likewise, apart from the fact that the complaint alleges in the Litton case cover all of these marketing practices, and it's a very complicated in a lot of different things, they also have come, as far as we can see, to their approach to the case much differently than SCM.

For example, we have agreed with respect to our document and interrogatories of July 31 that Xerox will

insofar as vice president's files are concerned, only search those in three places: Stamford, Webster and Rochester, and that -- all the other Xerox vice presidents across the country, we are not asking that any of those files be searched. We are not asking for any branch offices, we do not make the claim insofar as the way we view the case, maybe we are wrong and maybe ultimately we will be sorry we did it, but we don't view the case as being one where we are going to find the documents that we are interested in or the interrogatory answers down at the lowest level of the company. Rather, we think we are going to find them to the extent that we want any additional ones at the highest levels of the company, and, therefore, the whole question of documents is entirely different.

We are trying, maybe we will fail, we are trying to follow the admonition of Judge Sozanski in the Grinnell case and United Shoe case where he complained bitterly about the government using a thousand documents when ten would be enough. We want to use one instead of 100. And that's a difference in approach.

Litton also has noticed, as I understand it -- as a first round of depositions, 36 depositions, we would like to take none. I'm not saying we are going to take none, I hope that if we take them, we can count them on one hand, and if we can't count them on one hand, we can count them on two.

I say this because Xerox thoughout their opposition to our papers as a thread, SCM is the tardiest of them all, and, therefore, why should SCM get any better treatment than anybody else?

I think there is a quick answer to that, which is we are under our law allowed to come to Court, we are allowed to ask for relief, and the Court will decide what legitimate steps can be taken, and regardles s of when we come in. The fact that Xerox brought suits against others after we brought ours does not, in our view, say that Xerox has not got a legitimate right to go to Court to press its claims, nor do we say that Xerox hasn't got a legitimate right, it certainly has to press its claims on suits that were brought before.

It is besides the point, in the first instance, when we brought the suit. But we are not tardy by any means, if we go to the next point. We watch the Federal Trade Commission investigation, it started, when Xerox announced the investigation started in December of 1969. It took three and a half years for the Federal Trade Commission to complete its investigation and announce its proposed complaint in December of 1972. SCM was dismayed when Xerox announced they were not going to even discuss with the FTC any possible consent negotiations. We were dismayed, SCM was dismayed, when in January the chief executive officer of Xerox said to the FTC

complaint proceedings, the proceedings were a nuisance. SCM was dismayed when Xerox said not a wit of their business was going to ~~complaining~~ charge because of the FTC proceedings, and SCM looked at the FTC proceeding and whether we were right or we were wrong, adjudged how we felt it was going to be approached and made a judgment that the FTC proceeding could not, assuming all the allegations of the complaint were held to be true, could not possibly result in any adjudication of relief for at least ten years, at least, assuming that everybody in those proceedings, the way the staff was approaching it, were diligent and expeditious and not a minute delay was involved, because you consider the third party discovery, Xerox has now started what it calls third party discovery, 64 companies, allegedly competitors of Xerox have been served with subpoena.

It's in contrast to one of their papers -- here I go, I was about to get into somethingthat's confidential. I will try to save it.

Let me put it this way. They have served subpoenaes, or they are asking for subpoenaes on 64 companies, and their own internal papers show a much, much fewer companies that they have any interest in from a competitive point of view.

That's only the beginning because after they get all these thousands of documents from -- it's going to be millions, millions, from 64 companies, then they are going to

want to take depositions.

Now, SCM is one, and in the internal documents -- I will withdraw that because -- I'm trying, Judge. I will move more quickly --

THE COURT: I appreciate the problem you have. Isn't part of the difficulty, not the secrecy difficulty, but the issue you are talking about, you see this as what you characterize as a somewhat narrow claim, at least narrower than some other -- their view is that even if they were to accept your characterization, narrow, they probably won't, but even if they did, they feel they have the right to defend that claim by bringing into court certain facts that show that your claim is well taken and what their argument -- at least on this point, heavily involves is that the narroness or the breadth of it can't be measured by way you have to do alone, it has to be measured by what they have to do to meet your claim.

Now, you then say: well, on this competition point, their papers show they don't compete with as many people as they would like to depose, but is that an end to discovery, are they limited by their papers?

MR. KAYE: No, your Honor. They are entitled and we -- I say nothing. I give Xerox nothing when I say that Xerox is entitled to defend itself through every legitimate means and it is the Court -- it's the Court that is going to decide

when Xerox and SCM are in here as to the breadth and extent of discovery what is essential to Xerox's defense and what's their legimate needs, so that I don't quarrel with that at all. My only point in terms of the Litton case and the FTC case is the converse of the point that you have just made, which is, as Xerox has the legitimate right to defend itself and to establish the breadth and extent of the legitimacy of this Court, so SCM has the legimate right to pursue the relief that it seeks by making such application to the Court as it hopes will be granted in order to bring this case on as expeditiously as possible.

THE COURT: I don't think they are really challenging legitimacy. I don't think they are saying you should not be in court, nor do I understand them to be saying that your lateness if anything like latches, they are not saying you should be penalized for when you decided to bring the case.

Their point on lateness is that, in effect, having left the starting gate a little later than theothers, you shouldn't cross the finish line earlier. It's not that you have done anything wrong for which you should be penalized, it's just that they would be surprised to see you cross the finish line earlier.

MR. KAYE: They have alleged latches, so I think you have understated --

THE COURT: On the equitable claim. But as to this issue, as to whether the liability issue can be put as a

separate matter and brought on for an early trial, I don't understand they are raising latches about that.

MR. KAYE: I agree with your Honor on that. I don't think that solely because there are otherproceedings going on that that is itself a reason why this Court should not allow SCM, if it's possible, to get to trial on a substantive issue before a trial there, in other words, to take the point as far as it can be taken, SCM should not be required to wait until the FTC or Litton tries its case the way they want to try it, if the way they want to try it is going to mean years and years. That really is only my entire point on this area.

On the question -- and I come to the question of severance -- first, the Xerox papers seem to say that under Rule 42 or otherwise, it is not a separate issue as to whether or not Xerox violated Section 1, Section 2 of the Sherman Act and Section 7 of the Clayton Act.

I don't think Xerox means that's not an issue. Certainly in a government case, and certainly on their own papers, where they say that the first issue at Page 11 of their brief, they say that the first issue in every private antitrust case is violation, and the second issue is causation, and the third issue is damages. I don't really think that Xerox means that the issue of whether they have violated Sections 1 and 2 of the Sherman Act and Section 7 aren't separable issues. I am

not sure what they mean, but I don't think they mean that.

Our motion for severance says that we ask for a separate trial, and the issue is whether Xerox has violated each of Sections 1 and 2 of the Sherman Act and SEction 7 of the Clayton Act. And that is Paragraphs 31 and 29 of the amended complaint. Your Honor, if you have a copy of that there -- we can give you a copy -- Paragraph 31, the Court should declare that Xerox acts and practices alleged in this first claim are illegal and against public policy, and that as alleged in Paragraph 29, they violate each of those sections, and then Paragraph 29 states a little more specifically that based on the acts and practices, they have violated those acts. That's what we are asking to be tried separately, to be severed.

And that comprehends everything in the complaint up to that time, which means the acts and practics and the effect, and one of the effects, but only one of the effects, is that SCM was excluded from competing. Xerox likes to use the word "impact". The word "causation" can be used as they use it at onepoint in their brief, or the word "effects." Very frankly, Xerox has spent an enormous amount of time in their brief arguing the point as to which we don't have a disagreement.

The way that we propose it is that the violations of Sections 1, 2 and 7 shall be tried separately,

and that means that all of their acts and practices in the alleged effects will be tried at the same time, and that we separate from that the question of damages, both on the equity side -- that's not the right word, "damages," but the equitable relief. The question the Court has to decide before it grants equitable relief that there is a likelihood of future injury and the monetary damages, and also the patents, but I will put the patents aside --

THE COURT: So I may see where theparties are on this, as you have said, they identify three elements, the violation, what they call the impact, and you call causation, and then third, damages. Now, you don't dispute that thereare those three, broadly speaking, elements?

MR. KAYE: We agree with that, and the way they expressed it at Page 11.

THE COURT: Do you also agree that -- is your request that what should be severed are the first two issues as a group, both issues, in other words, everything but damages?

MR. KAYE: Yes, and -- all that it requires, in order to meet everything that they have said is that either a fourth question be asked to the jury or a special interrogatory under the first three, which is not an interrogatory. The jury will be asked, and as I see the jury case, three questions. Did Xerox violate Section 1 of the Sherman Act, did Xerox violate

Section 2 of the Sherman Act, and did Xerox Violate Section 7 of the Clayton Act?

Now, the jury may be asked a special interrogatory or a separate question, was SCM wrongfully -- assuming the answer to one of or more of the foregoing questions was: yes, was SCM wrongfully excluded from the skill and technology of plain paper office copy and, therefore, from manufacturing plain paper office copiers and marketing them?

Now, that is the sum and substance of better than half of their brief.

Now, what it means is that there will be a limited amount or a limited number of witnesses tha may come back for the damages: that is, the monetary damages part of the trial. Let me try to make this clear. If your Honor would turn to Page 12 of the amended complaint, there in one paragraph with a number of subparagraphs, we alleged a number of different unlawful effects of Xerox's acts and practices, and this all forms part of our claims of violation just as it would in a government case and only a portion of that relates to SCM. We intend to prove that not only SCM was unlawfully excluded, but so was IBM and so were a few other companies who, like SCM, went to Xerox and asked them for plain paper license, were refused, and we cited that as a wrongful refusal under the antitrust laws.

So that insofar as there is any later in the damage part of the case, repetition, if that's the right word or calling back the same witnesses, yes, just to the minimum extent of SCM, but not with respect to IBM or all of the others.

In that regard, I would like to point to what the Supreme Court said in the Xenith case, which is cited by Xerox, in terms of how much you have to prove by way of this causation, what Xerox calls impact, and what is called also, perhaps better known, fact of damages. In Footnote 10, the Zenith against Hazeltine, very interesting and important case, the Court says, "Zenith's burden of proving the fact of damage under Section 4 of the Clayton Act is satisfied by its proof of," and this is underscored by the Court," some damage flowing from the unlawful conspiracy, inquiry beyond this minimum point goes only to the amount and not the fact of damage."

So that in our -- as we visualize the question of violation, we don't have to necessarily prove all of what we are going to prove when we get to try to making our proof on damages: that is, past damages, nor do we have to prove everything that we want to prove, when we come to your Honor, if SCM is successful, we say we want the kind of relief that we are asking for in the complaint as to the future, but we have to show, as the Supreme Court has said, is some damage and that satisfies the fact of damage, and, therefore, I think

Xerox has blown up enormously this whole problem, and I should point out that there is nothing in our brief that in any way should have led Xerox to the lengths that they have gone on this point, because, as a matter of fact, I think it was -- I can't recall the page, I remember the paragraph in the bottom of the page, why severance was a good idea, Page 1-12, we say here, "There are several other factors that, according to the decisional law," et cetera, why severance is a good idea; second is the fact that the patent and damage issues and the evidence they require are significantly different from the issues and most of the evidence, most of the evidence, regarding Xerox's violations of the antitrust laws.

What we had in mind when we said most of the evidence was is one area where there may be what may be called a duplication: that is just on SCM, but the exclusion of IBM, the exclusion of Bell and Howell, theexclusion of this company, and these other effects that I refer to in Paragraph28, that will all be in the first trial.

THE COURT: Let me just be sure I understand you. If there were a severance, is it your view that in the first trial you would litigate everything needed to establish your entitlement to a money judgment other than the amount of the money judgment?

MR. KAYE: Yes, your Honor. As I said before, when

we come for the money judgment, we may offer a lot more proof, but we will satisfy the requirement of showing some damages under the Zenith case.

Now, one other point on that, and I think it goes to -- Xerox says it's legally impossible to take this issue out, it's so intertwined, but I think what Xerox has overlooked, as one example, Section 5 of the Clayton Act, the so-called prima facie rule where there has been a conviction in a government case, the plaintiff is entitled to go -- that is, a private party is entitled to go to court and sue for damages, and from time to time that has occurred where the defendant has elected not to defend against the charge of violation and makes his entire thrust of his defense that the violation was not casually connected to what the defendant had been convicted of in the government case, and that there was no damage. So that the issues are separable and I don't think that can be really disputed.

The second reason why we believe that severance should be granted under Rule 42 and in the interests of justice, relate to the question and need, what we consider to be the need, for the most expeditious adjudication of merits issue.

Now, what I'm about to say goes not only to this part of my argument, but relates tos everance, but it also goes to the second part of my argument relating to preliminary

injunction, and keeping that in mind, what I want to address, and this is the point, your Honor, that I think thatI would as much as I told Mr. Schwartz and Mr. Kerr, his partner, that I regret, I think we ought to ask Mr. Schwartz to leave. I would appreciate your Honor's indulgence on this to do that, and I think that Mr. Schwartz, understanding the problem, will -- although he would like to be here, would not mind.

THE COURT: You have lots of people in the courtroom. I don't know who some of the others are. You have identified two.

MR. KAYE: In front of Mr. Schwartz on this side of the aisle -- I feel like we are at a wedding -- is SCM, as far as I understand, everybody here is Xerox, other than the court personnel.

THE COURT: Well, what I'm wondering, can you do this -- if this is the stage when it's necessary, can we deal with whatever you want to say on this point -- I don't want to have them in and out of the courtroom half a dozen times if we can avoid that.

MR. KAYE: I think at most, twice, and maybe not again, but certainly no more than twice, because I know the two areas that I have.

THE COURT: All right. We will ask the IBM counsel to excuse themselves for a few moments.

(Mr. Schwartz left the courtroom.)

MR. KAYE: Your Honor has seen the Exhibit 1 of our memorandum,which is that printed booklet that was prepared by four corporations, Control Data, Honeywell --

THE COURT: I know what you mean. I don't know if I can find it at this moment, but the suggestion made to the government in the FTC proceeding --

MR. KAYE: The suggestion that there be a severance and also the point very forcefully, and I think most persuasively made and certainly better than anything we have begun to express in our pretrial conference, that every day, as every day passes, if it's true as alleged in the United States case against IBM, and if it's true as alleged in the case of SCM versus Xerox Corporation, that the defendant is, has and is continuing every day to violate the antitrust laws, that each day that that violation remains unchecked, there is an enlarge -- not only a manintenance of the monopoly or anticompetitive power, because we are dealing here not only with Section 2, Section 1 and also Section 7, there is no -- not only the maintenance of that power, but the enlargement of it, and if it exists and if it's unlawful then, of course, that very determination means that it's injuring competitors and, therefore, Control Data urged that the government seek both behavioral and structural relief by way of what they call interim relief: that is, before the ultimate adjudication. What Control Data

said there is of equal importance here, and it is of equal importance here, if your Honor will open the book which is called Exhibit A, Xerox 1972 long-range plan, we said in our brief that if there were any doubts that as every day goes on, thatXerox is not only maintaining its power with respect to plain paper copiers and copiers in general, it's dispelled by the long-range plan.

And we said we would bring it along with us. Thisis the 1972 Xerox long-range plan, 1100 pages. It is now perhaps a year and a half old, it was prepared in July of 1973 in anticipation of a top -- by very high management, for top management -- a top management meeting as to Xerox's strategy for the future, and they make one of these every year, and I dare to say, your Honor, that -- I will say this, without equivocation, this is a remarkable document, an extraordinary document, because it accumulates vast amounts of information about the copying business, plain paper and duplicating and all the kind of businesses, it marshals, it organizes it in coherent and very clear terms. It brings it in to summaries, and then there are more and more summaries, and then it brings it up to a two-page document, which is under table one of your book, strategic issues. It brings it all up to eight issues, chief executive officer and his top people are going to decide for Xerox what they are going to do, and in terms of --

whether you call it the Harvard Business School or anyone else, this has to be a truly remarkable document and undoubtedly -- or let's put it this way, I dare to say that more people in Xerox work on the preparation of the information and putting together this document annually than work in the entire copying field for SCM Corporation.

In any event, as you can see from under tab one -- I will get to that in order. The first question they say is under Arabic 1, they talk about a market divided into two parts, under 25,000 copies a month and over 25,000 copies a month.

Do these levels of market penetration represent the most profitable long-term strategy, in other words, here is Xerox who SCM claims is the monopoly decided not what market share they will have, but what is the market share that they ought to have to make the most profit.

Under tab two, Xerox new product development -- and now let's just look at this. Xerox for ten years, from 1960 to 1970, was the only manufacturer of plain paper copiers and had the skill and technology and all the patents. Under tab 2E, a number of new products that are approved, planned and being worked on in the next decade, 1972 to 1981 are described.

If you will turn to tab 2G, your Honor will see those are all the new products that Xerox plans to bring out

in the next decade.

Now, earlier this week SCM announced that it is now in the plain paper office copier business, when we were here last, as alleged in the complaint, SCM is working to develop its own plain paper office copier, and I don't know that it's in the complaint, but it's certainly common knowledge, it's been in press releases, it was anticipated and it's still anticipated that that will not come to the market until 1975.

Earlier this week SCM entered into an agreement with Van Dyck Research Corporation, which does manufacture, a very small company -- does manufacture plain paper office copiers and SCM expects to be marketing plain paper office copiers by January. The transaction, if the -- over a two-year period, if it's fulfilled to its outer limits, will involve something like $45 million worth of purchases by SCM from Van Dyck of plain paper office copiers, and the marketing of those so that SCM now is in two positions with respect to plain paper officer copier, actual competitor or about to be an actual competitor, and also a potential competitor with other design machines in 1975.

Looking at this chart, 2G, this is the mamouth that SCM faces as a potential -- as a new entrant, and if, in fact, as it's alleged in the complaint, that this is a consequence of all of the acts and practices over the past

decade or more, and those practices were unlawful, SCM, as an actual competitor and actual potential competitor faces a hard road and which is going to get harder, and we have to just look at the chart and look at the description of the kinds of products we are talking about.

For example, one of those products is called -- and they all have code names, Decoy, Sam Ponk, all rather military and it's very secret. It's no surprise --

THE COURT: They have to call it something.

MR. KAYE: They have to call it something, but I do want to take one quick side road. There are people who believe that power, in large part, depends on secrecy, and whether we disagree with it or not, it is certainly true, and we have seen many instances of it that power can be exercised with the greater amount of secrecy, and these names remind me of my days in the army, as they may remind your Honor.

But I want to talk about SAM when we get to the consequences of what SCM claims is the worldwide cartel and which from the 1972 long-range plan probably demonstrates it beyond per adventure.

In any event, what's happening is that Xerox has got under development a whole host of products, in addition to its 12 or 13 products, a broad product line, against entrants who have come in with one or two, and it is of enormous competitive

disadvantage. This is the kind of thing that Control Data was talking about, it's exactly the same thing.

Under Tab 3, entitled: Xerox Control of Technology, if you look at Tab 3A, there Xerox is saying that they are going to maintain their technical supremacy in the copying and duplicating part of our business, the heartlands, the heartlands run through a lot of their documents. The heartlands if plain paper copying in these middle volume ranges.

If we are correct that their technical supremacy was achieved by violation of Section 1 and 2 of the Sherman Act and Section 7 of the Clayton Act, then every day that Xerox remains unchecked is a day in which they are allowed to continue to violate the antitrust laws, and in that regard, let me stop for just a moment, Xerox -- and I'm going off the severance to the preliminary injunction. Xerox says in its brief that if you can show injury, future injury, of course, a preliminary injunction can be granted. This was the point that we made with reference to the Danielson case in our pretrial conference. The Court of Appeals in the Second Circuit in May, the failure to issue an injunction here, referring to that labor case, maintains not the status quo, but protects what the Court below has found it bordered on reasonable grounds to believe is a violation of the statute.

My point is both as to the severance and as to the

preliminary injunction, that given these kind of facts, the sooner we can get to a determination, either by trial of the severed issue, thatthey did or didn't violate, the sooner we can get to the question of relief.

Let me just finish on this book. Under 3D -- and I'm coming back to their control of technology -- Xerox says, "Since xerographic technology is maturing" -- and this is 20 years after or more after it began where they for ten years were the only ones that could use it for plain paper copier -- "since formidable competition has developed, et cetera, the focus is shifting away from passive reliance on preeminent patent protection."

That's our complaint, and that they acquired that patent protection illegally.

To a technical mastery of xerography, although some new important patent protection may result from continued research in the field, it is now apparent that the company's competitive edge in xerography may be maintained.

They got it, nobody disputes it, but its ability to effectively innovate, and develop produce and market products.

If we go back to 3A, why do they have that technical supremacy? People. The real strength of the R and D division rests in the technical capability of our people.

This professional staff representing 95 percent of the world xerographers comprises a proficient technical community.

Let me turn to Xerox's power to control prices. Xerox says in its brief that monopoly, unlawful monopoly power, is the power to fix prices or to exclude competition.

In Tab 4 and in the 1972 Xerox plan, pages 1 and 2, Xerox is not going to drop any prices until 1976. Tab 4B, the lack of competition enables them to keep the prices up to 1976 as they view it now, and with a lack of competition, thelack of competition from plain paper copiers. Originally, and we go back and we trace it, 1971, 1970 plan, they were very fearful of IBM. They thought IBM was going to do them a lot of damage, they thought their pricing structure was going to have to move down. The first plain paper copier, IBM. 1972 plan says: we were wrong, things are not going to happen that fast any more.

That's what monopoly is all about, two things, prices and excluding competition.

Let me turn to Tab 5. Another thing that monopoly is all about: and that is, having the control of bringing out products. Now, the earlier plans and the earlier papers of Xerox show that Xerox has been interested in getting new products out to market. However, in their first generation products, and then in dealing with their second generation

products, they have always been worried about not what any other company is going to do, but to what extent will the second generation copier obsolete one of their own? Again, that's a monopolist's problem.

Now they have shifted. In their '72 plan, again in the background of their original fear of IBM, they now say under Tab 5C and 5D, in previous years -- I'm reading 5D -- "In previous years our business strategy was to bring new products as quickly as possible and to use these products in areas presently served by first generation products considered to be competitively obsolete. Our present strategy is to still develop and test new products as quickly as possible, however, the competitive outlook has changed, IBM is not as big and bad as we thought they were, and our first generation -- so our first generation product power appears greater so that the need to rapidly replace present products is not as great as previously thought."

Under these other tabs, under 5, they talk about delay, delay strategy, "Delay strategy means we have a product, it's all done, we want to quickly develop it, but when we are going to introduce it in the market, that is a strategic question to Xerox."

Your Honor, that is -- only a monopolist can do that because competitors have to bring out products as fast as

possible to try to outsell his competitors, only the monopolist has the power to delay.

The last tab in this booklet, your Honor, relates to every day of this week, next week, next month and next year, Xerox is maintaining and enlarging its cartel power with Rank Xerox and Fuji Xerox.

Tab 6A talks about the Sam. What is the Sam? SAm is a low volume copier up to 2,000 a month, and where is the Sam coming from? Not from Xerox's research, but from Rank Xerox over in England. What Xerox considers to be its department, but what is Rank Xerox? Rank Xerox was a company that Xerox owned 49 percent interest in, an English company, which they acquired another one or two percent in 1969, the treated as if it's 100 percent of Xerox, and it's an independent entity.

Now, Xerox treats Rank Xerox and Fuji Xerox, and these papers under Tab 5 show it to a faretheewell, they treat it as if it's a department, except the antitrust laws don't allow it to be treated as a department, they are separate entities.

Now, what happens, Rank Xerox has developed a machine that Rank Xerox will sell abroad, Rank Xerox originally got all its technology from Xerox, and now it's done its own and it's giving some back, Rank Xerox will sell it in England --

nobody else can buy it from Rank Xerox, SCM can't buy it the way it stands now from Rank Xerox, and yet it's a unique product, it's going to give Xerox a place that nobody else has and nobody else can possibly have for many years.

Xerox will market it in the United States, and presumably Fuji will market it in Japan. A territorial division of the world.

Your Honor, I suggest that these documents alone under Tab 6 show that the Timken Roller case and all of the I. G. Farben cartel, they pale compared to the cartel, the illegal cartel and unlawful activities.

Come back to the strategic issues on this point, and I think I have said enough. Just on this cartel.

Under Paragraph 4, Xerox management in July of 1972, four, issue, what is the best way to establish and effectively coordinate worldwide R and D efforts? What is the optimum manufacturing strategy for the broad array of products presented by the plaintiff?

All of the other tabs under 6E talk about the Rank Xerox people in the United States, Xerox people abroad.

Your Honor, we think that -- first, we hope that the Court will get to the job with the jury, Xerox wants the jury, and we are trying our best to accommodate them, to get to the job of adjudicating whether or not there are violations,

because once that's done, the Court can then get to the question of relief.

We say that the mere adjudication itself will be some measure of relief because SCM andothers will know that there is relief on the way. We also say, and I will come to it again briefly in preliminary injunction that this demonstrates -- I think thisanswers the question your Honor asked us in the conference is -- if we have a preliminary injunction hearing, how are you going to show that you are irreparably injured?

Now, as to the third element which we say supports severance --

THE COURT: Should we invite Mr. Schwartz from IBM?

(Mr. Schwartz returned to courtroom.)

THE COURT: Before you leave this aspect of severance, let me ask you mechanically what you have in mind. First, as to the jury. Do you have in mind two juries or one jury and a long interruption?

MR. KAYE: We have in mind two juries. One jury on the question of violation, as we have discussed it, and then as I'm just about to get into that, I am going to answer that question at a later point, a jury on the question of our claim to damages.

I can go on -- I don't know whether in your mind you are addressing yourself to a point that Xerox made, as to whether or not it's constitutionally permissible to have two juries. If that is the point, I will address myself to it right now. I see a shadow of doubt crossing your face.

THE COURT: They touch on it, and it perhaps needs some attention. There is also again at the more practical level how that second jury is going to deal with damage questions without significant repetition of what the first jury heard.

MR. KAYE: First, I come back to Zenith that in the first question we only have to show some causation, some -- a minimum causation. Second, Beacon Theaters says that this new approach that we are taking -- no question it was a new approach -- which is where you have legal and equitable, you are going to have the jury trial, except under imperative circumstances.

It's not, as Beacon Theaters say, a 100 percent absolute constitutional right. It's not that. In fact, in 1966 in Kitchen against Landry, the Court says that the doctrine of Beacon Theater is an equitable doctrine because in Kitchen against Landry it was an imperative circumstance case where they denied a right of jury even though the claim was a legal one under the bankruptcy scheme and there they characterized Beacon Theaters as being an equitable doctrine.

Beacon Theaters, they say our approach is possible because of the flexible procedures of the Federal Rules. And one of those flexible procedures is Rule 42 severance, another flexible procedure of special interrogatories.

I don't propose that simply because Xerox has claimed the right of trial by jury, that Xerox is going to be allowed, or the Court have, 42 questions put to the jury as if the Court -- as if the jury was the Court making findings of fact.

Sometimes Xerox sort of loses sight of the fact that this is a jury they have been asking for. But within those flexible procedures, certainly those four questions that I asked at the beginning, did they violate each one of those acts, three questions, and the next question is: was SCM wrongfully excluded, answers that question.

Now, yes, to the question: will there be

some repetition, I think I tried to answer that before, yes, there will be some, but only as to SCM.

Our case is much broader --

THE COURT: In view of the repetition, as I understood you was your view of repetition, as I understood, was a fairly limited one, and it arose because you realize that in the liability phase, you would have to show some damage, and in the second phase, of course, you have to particularize it.

MR. KAYE: Right.

THE COURT: Their point is quite different, as I understand it, it's not merely that overlap, it's that for a jury to properly assess the detail of damage, they have to appreciate both the pros and the cons of significant evidence affecting the violation, that you just can't come in and start with day one of the evidence and say: now, we want to tell you about some probably damage you had.

MR. KAYE: I want to dispute that, because if in the second trial the jury is instructed, that Xerox has violated the antitrust laws, and your function here is to determine whether -- and it's also determined that that violation caused injury to SCM, now, it's your function to decide how much that injury was -- now, we are talking about the legal side because the equitable side, your Honor, at that point -- at that

point, SCM is going tocome in and start talking what were its damages. It's not going to have to prove that it was excluded. We are going to prove that we -- there is no dispute that in 1973, you have seen these other documents carrying it all the way to 1968, the document from the general counsel of Xerox, talks about SCM's annual request for plain paper license, we are not going to have to prove that again, but SCM is going to have to prove, starting in 1963 or '64, let's say we had a license in 1963 and as the Xerox papers -- we were able to bring a product to market in two years, by 1966, what would we have done: that is, what would the profits have been had we been able to get into the business of plain paper office copying by January 1, 1966, and what would our profits have been from that point until now?

The first trial will have answered all of the questions as to whether we have-- whether there is any liability on Xerox's part. Now, there are two -- maybe there are more, but let me try two. There are two ways that SCM can come in to prove damages. We may, as in the Electrical Equipment case, come in with experts and create a model of what the world would have looked like if there was genuine competition, and our experts would have said instead of Xerox having 100 percent, it might havehad 42 percent and SCM would have had eight percent and so forth and so on. We might try to prove

it that way.

We also might try to prove it the way Zenith proved it damages in the Zenith against Hazeltine case, in that case Zenith was excluded from the Canadian market by virtue of patent pools, and it put on its damage proof by saying inthe United States from this period to this period, we did so much with television sets, we were able to earn so much profits, had we been allowed into Canada, we would have done so much and so much.

Now, that -- let me put it -- if we do it either way -- if we do it the second way, certainly, we are going to have to bring in lots of proof from our own files as to what we have done in coated paper office copiers, or if we had not been in coated paper office copiers, but are in complicated electrical mechanical, other kinds of machines. That's what the case is going to be about. What's Xerox going to do --

THE COURT: Suppose you do it the first way? Is it your theory of damages that you just bring your experts in and say: well, we would have made an awful lot of money? Isn't there going to have to be some relationship as to the extent to which their alleged monopolistic practices impair your abiliby to make money? It's not a yes or no thing, is it? It's not that you make no money with the monopoly, but lots

money without --

MR. KAYE: Your Honor reaches the point that I'm going to get to. We are going to have to show that there is some realism, and how are we going to show there was some realism? We were never in that market. We are going to show it, we are going to try to show it, we may try to show it, I don't want to get to the point of precluding ourselves on damages, because we may try to show it by saying in the 1963 period to '65 period, we were doing so much in coated paper copiers, that if instead of being confined, if Xerox, who had all the patents and they divided the technology in two parts, and they admit this, and divided it in coated paper technology and plain paper technology, now, assuming that was unlawful, we have so many companies who were in that business, what would the whole market have looked like. That's the damage point,we don't have to show all of it. We don't have to show in the liability case any part of that because all we have to show is that there was a wrongful exclusion, and we don't intend to get into that kind of thing. It does relate to damages.

THE COURT: But in showing how your capacity to earn profits was impeded, aren't you going to have to show that to the second jury, the extent and the impact of the monopolistic practices?

MR. KAYE: Not in this case for this reason, we were

never in the business. If this were a case of we were in the business, but they were -- we were marketing for a while, or we were marketing the product, but we say that instead of having a four percent share with an eight percent -- with a two percent profitability rate, we should have had an eight percent share with an eight percent profitability, then perhaps.

But here we're dealing with a pure exclusion. We have never been in this business.

THE COURT: All that means is that the first figure is zero.

MR. KAYE: That's right.

THE COURT: How does the jury have any sense of what the second figure is, the should have been figure?

MR. KAYE: They draw that from our experts and they draw that from perhaps our experience --

THE COURT: But your experts, it would seem to me, just don't say: we were out of the market, therefore, we got X percent. Your expert presumably says: the Xerox monopolistic practices were such that had they been lawful, we would have gotten to X percent, isn't that going to be the general tenor of their testimony?

MR. KAYE: Your Honor, I'm not sure I understand the question, because as you were asking it, I was thinking that Zenith, they were in a similar situation. They were out

of Canada, we are out of the plain paper business. They simply, without regard really to -- the issue of violation was that the defendant together with the Canadian patent pools kept them out. After that was decided, then it was a pure question of not what their practice is, the practice had nothing to do with it. Because the practice that was the spark, the illegality was the exclusion. Once we have been excluded, now the inquiry is what would we have done had we not been excluded. We are not complaining here that -- about marketing practices, discriminatory pricing plans and all that kind of thing. So that we don't have that kind of second duplication, if that's the right word. That's a redundancy --

THE COURT: Is the jury in the damage issue to decide the case as if Xerox didn't exist, is that --

MR. KAYE: No, not at all. But it has to decide it on the grounds of what would have occurred if SCM had not been excluded.

Now, this kind of thing was done in a case --

THE COURT: They could do that if Xerox didn't exist. I could tell them: assume that Xerox never existed and, therefore, SCM was not improperly excluded, certainly if Xerox didn't exist, SCM would have had access to the market under your theory, and yet, it obviously is not that simple.

MR. KAYE: Your Honor, I'm not at all suggesting the

question of damages are not simple. SCM cannot say that it would have been in the market before January 1, 1966. As a matter of our private belief, we come into the market in January 1, '66, and we come into the market at that time wherever the market was under our theory, because under the theory we should have had a license in '63, take two years to develop the machine, we are in the market in '66.

Ofcourse, at that point there is Xerox. Now, what could we have done, is the question on damages. Having come in.

Now, I'm not going to say there are no problems, but I -- but whatever problems there are -- and Professor Handler finds it a little bit amusing, I assume he is going to devote himself to this point, but it's true in virtually every case where you have a separation of damages, there is no difference here in the question of damages in our view than in a patent infringement case. It's a question of what in terms of damages what would have happened.

Now, if there are problems, and to the extent there are problems, let us not forget that problem arises by virtue of the fact that Xerox claims its constitutional right or its right under Beacon Theater is more adequately for a jury trial.

Let us not forget that that claim should not be

one which carries with it irresponsibility: that is, that simply because they claim to the jury, that there is this problem or that problem and, therefore, SCM gets nothing, because that's not the objective, I don't think, of this Court, which is to accommodate all three questions, which is: SCM's genuine and legitimate interest in a speedy determination, and Xerox's claimed jury trial right, and also the best use of time and economy.

THE COURT: Let me turn it around the other way for a minute. Since this is a case where you weren't in the market to begin with, how complicated is your proof going to be? How much are we really saving?

MR. KAYE: May I answer that? If we put on what I call the first model, our proof is relatively -- it's really expert -- if we put on our proof from the second model: that is, if we go to our historical experience in thecoated paper business, it's going to be substantial.

Now, either way we do it, Xerox is going to say -- and I have been, as a lawyer in this position, that Xerox is in, in defending against a damage claim where there was a violation, they are going to say: we are entitled to discover every single bit of what you have done in the coated paper business, and they are right. SCM started out in the coated paper business in what was called Vivacopy in 1959, it

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was a failure. They went into what was called the Model 33 in 1961 and they have been in -- they went to the 30, the 44, 55, 111, 211, 311 and 411, all coated paper. 13, 14 years of experience. Xerox is entitled, and I say it now, to all kinds of discovery in order to show, to try to prepare a defense to show that even if we had gotten a license and even if we had gotten into the business, that by virtue of our other experiences, this is what they may want to claim, try to develop, that we wouldn't have made money, that if we would have made money, we sayin the complaint and allege we would have made $145 million -- first of all, Xerox would say: you would not have been able to do it, I doubt that they will be able to prove that, but I don't understand that damages always involve not a pure question of yes or no, but maybe Xerox will try to develop a case, assuming violation, we were only damaged $5 million rather than $145 million.

Now, Xerox's counsel, Mr. Robinson, stood up or said, speaking only to damages in the Litton case, that the discovery will be exhaustive.

Your Honor, that statement is correct. My own personal experience, I was in a case where we only -- which involved a situation where the Federal Trade Commission had found a violation and where a private party brought a suit and where we made no effort to dispute the violation, it was a

Robinson-Patman situation, it involved 67 stores in a chain and the parties were diligent in their discovery, and it took four years to complete the discovery on damages, that the defendant was entitled to.

Now, there is on Xerox's own statement where we are going to save an enormous amount of time, on a point that has no real public urgency.

Your Honor, also on patents, I don't know whether you want to leave damages, but it just cannot be disputed that a great deal of time is going to be saved by not getting into damages.

Your Honor, I would be prepared tosay that if we have to try -- if our severance is not accomplished, as Xerox doesn't want it to be, if we are not allowed, as Xerox doesn't want us to be, to have a preliminary injunction, if we are unable to utilize other devices such as summary judgment, which would be extraordinary, and we have to proceed in this case to try in discovery first, both on violations, as I have discussed it, and on damages, put aside for the moment patents, then as the FTC we can look, assuming that the parties are as diligent and expeditious as possible, we cannot look to any ultimate relief here of any kind for ten years, in which case I say to your Honor, I think that assuming that we are correct in the allegations if we are here, we will have won

a pyrrhic victory ten years from now, long-range plan.

I would like to turn to the severance on stay of patents. The stay of patents.

First, we alleged in Claim 3T006, and the mirror of that is alleged by Xerox in their first and second counterclaims, the Middleton-Reynolds 006. Then Xerox has come up with one more patent, the so-called Mayer 884 patent, first, by staying the patent -- without regard to Blonder Tong, by staying the patent issues, we are avoiding the possibility that we may everhave to try it because if SCM is right on its first claim, then all Xerox patents are unenforcible, there is nothing left to the patent question, that, to my mind, I think ought to be despositive.

Second, against without -- this is both the Middletown-Reynolds and 006, there is no pressing public urgency or private urgency, for that matter, with respect to either of those. On the 006, Xerox claims that we have reached a contract and have been infringed since 1960 or 1961, three years. They admit that they have not brought any lawsuits and made no effort, it was just a bringing of this lawsuit that prompted that. This other patent was issued 17 months ago, your Honor was in the conference when we asked what the counterclaims were, and Xerox counsel said: they are looking at our equipment to find out what's infringed.

There is no pressing urgency on any -- either the 006 patent or this additional Mayer patent. Incidentally, it was incredible. The application was filed in 1953, the patent was issued 19 years later in June, 1972, and then 17 months later, and only after we brought the lawsuit, is a claim made on this.. It involves the dispersal of liquid toner in a machine.

Perhaps of the two, the more important patent, the Middletown-Reynolds patent, your Honor knows that Judge Weinfel has that case on his ready calendar inthe Southern District, your Honor also knows that patent is being litigated in the Litton case, and I gather that the-- that's the patent side of the Litton case is going to be here this afternoon.

We have argued that under Blonder Tong -- besides all of these other reasons, even if we didn't have Blonder Tong, if there were no Blonder Tong rule, we say that there is no point in going forward on the patent issues because, number one, it may turn out that if we are right on the claim one, they are unenforcible and, therefore, it would be a waste of time for everybody and the Court and, two, Xerox has never indicated any interest, and, three, it's -- these parties are just a reflex reaction. So that on those grounds alone, we say patents ought to be out of the case until we have disposed of the important part of the case.

Now, solely as to the Middletown-Reynolds 006,

there are -- you have heard me before on the misallocation of resources, and it sure would be, since Judge Weinfeld may make a determination, Xerox may win, in which case there is the Litton case, on the other hand, Xerox may lose, and if Xerox loses, look at all of the lawyers' time and experience and Court's time that has been used up.

Somehow or other, there is an inconsistency in Xerox's position, they say: let's keep going on patents and let's keep going on all of these other things, but somehow, not enough time to work on the first issues.

Xerox cites a case -- and we appreciate they cited it because we were unaware of it -- called Filtrol Corporation versus Kelleher, which was decided by the Ninth Circuit Court of Appeals on September 21, 1972. In that case, and it is of interest for two very important reasons, Xerox says they cite Filtrol as being a case which supports their position that because of the pendencies of the two it shouldn't be stayed and they put some quotes in and they leave out a lot.

It was a Connecticut action involving a patent, and there is a California action, which was the one there. In the Connecticut action -- there was a validity issue in the California action, there is a validity issue and infringement issue, but the District Court did precisely what we asked, which is, he severed infringement -- first, he severed

infringement from validity, and because of the pendency of the California case -- the Connecticut case, excuse me -- he stayed anything on validity because if the Connecticut validity determination was against the patent under Blonder Tong, it would be estoppel. That's our point, and we rest on this authority as being an authority we didn't know that it existed.

What happened was that he said: I'm not going -- I'm going to sever validity from infringement, Connecticut is not going to decide whether this fellow's machine infringed, therefore, we will go ahead on the infringement issue. And it was from that determination that the appellant took his mandamus.

He went up on mandamus and said that the Court erred, first, in severing validity from infringement and not waiting for the Connecticut action before he went ahead with infringement.

The Court of Appeals said: we have a record, there are a lot of circumstances, there has been delay of seven years, let's go ahead, yes, the infringement part should go ahead and there was no issue as to the stay of the validity. So that this case entirely supports our position on the Blonder Tong. It also turns out it supports our position on the question of severance. There where the appellant says -- the Court said that it agreed with the Fifth

Circuit in another case, thatin order to have severance, it's not necessary that the severed issue be dispositive of the entire case, but it certainly is a strong factor if the defendant prevails that it will be dispositive of the whole case.

In other words, they said that in this Filtrol case, if it is demonstrated that there is no infringement, then we will never -- never have to get to validity. Applied here, and thisis something Xerox never addresses themselves to in their brief, suppose -- they never admitted of the possibilities. Suppose Xerox wins on the severed issue. If Xerox wins, then SCM is left to the appeal, it has been dispositive. Only if SCM wins do we then go on to the other thing, but if Xerox wins, look at all of the time and energy and enormous expense, not only on damages, but on patents, that everybody has been saved and this is the precise point that the Filtrol case makes in agreeing with the Fifth Circuit.

There is another matter that relates to severance, your Honor, and it also relates to the original question as to whether or not they have a right to the jury. In Ross against Bernard in 1970, one of the progeny of Beacon Theaters, the Court in a footnote says that the question of whether a matter is "legal": that is, therefore entitled to jury, depends on three factors, premerger custom, which the Supreme Court says that is historical, which have the least importance, the practical

abilities of the jury to comprehend the issues.

Now, that relates not only to the question of jury, but also to the question of confusion. The more that we can narrow the number of matters and issues that have to go before a jury, and it's -- Xerox must bear this responsibility. If they are going to claim the right, they are going to have to take the responsibility. Carl Becker, Professor at Cornell --

THE COURT: They don't want the patent issues to go to the same jury.

MR. KAYE: I'm sorry, I have left patents, forgive me. I have left patents. I'm not onto the question of severing violation from everything else.

But I was about to say that Professor Carl Becker in 1936 wrote an essay called Freedom and Responsibility, which he talked about the invocation of rights, and, therefore, the necessary corollary, if you are going to invoke rights, you're going to have to take the responsibilty for those things that flow from those rights.

One of the things that flows from Xerox's claimed right to a jury trial, is that it's going to be more difficult for everybody. We do not derogate the capacities of our fellow man or the jurymen to say that there is a possibility of confusion unless we present things in a most orderly fashion,

and we try to narrow down the number of issues they have to deal with.

Now, thishas also been illustrated in the TElcx case, Judge Christiansen, one of the most emminent judges in the federal judiciary, no one will dispute it, neither IBM or anyone else, himself, where he had a bench trial, recognized after he issued his decision that he had problems with not only the monetary damages, but with the equitable relief. That case itself is an example where even with a bench trial it would have been perhaps in retrospect seeing problems that Judge Christiansen, and I understand he lost a number of nights sleep over this problem because of his own consciousness about it, the problem of trying to deal with everything all at once.

Now, address ourselves to the jury on that question. We think that it will help to avoid confusion.

There is another point, and it was made in the Filtrol case, also, and that is with the-- I believe it was the Filtrol case -- that with this kind of severance you have, as we would have here, we would have win or lose, we would have the opportunity of appeal, if SCM wins, unquestionably there is a right to an interlocutory appeal, in which case the proceedings in the District Court can go ahead.

Xerox -- the dog that didn't bark in Xerox's papers, which is most understanding, is the question of all the savings of time, energy and resources of the Court and the parties, if they win.

But if whatever problems there are, SCM wins, it will be a small price to pay for whatever repetition there might be because of theproblem I talked about in terms of the long-range plan.

Now, we have -- let me try to sum it up. One is a severable issue, severable issue is the irreparable injury, the need for relief in the near future, what we say is relatively small overlap or duplication. The time savings in not having to be in pretrial discovery with respect to damages or patents, the point that if we lose, we have saved a great deal of time, and that if we win, we have achieved a number of objectives, a better utilization of all of our time and energy.

In the last couple of weeks, your Honor, three days ago Xerox served on us interrogatories and document demands on the patent issues, they couldn't wait until we have this hearing. A set of them. That time could be better spent.

Avoid the jury confusion and also the question of appeal ability. All which we believe adds up to one thing, that all of the requirements of Rule 42B are met with respect to

severance and that it's in the interest of justice, not only for SCM, for the public and observing Xerox's claimed jury demand.

If on these severance issues, everything I have said is all wrong, and I admit to that possibility -- if everything Xerox says on severance is wrong, then because of the great public urgency of this matter, because of the approach being followed in the Federal Trade Commission in the Litton case, which is parimarily damages rather than injunction, then I say, your Honor, that we have reached a case of imperative circumstances under Beacon Theaters, and that your Honor ought to direct that the equitable issues be tried entirely to the Court, all of the issues.

Now, as to that, Rachel against Hill is instructive, because originally Beacon Theaters said that the problem and why you have to have a jury first is because of collateral estoppel. If you try the equitable first, then you are going to have an estoppel against them in the jury trial. Rachel against Hill in the Fifth Circuit deal with that problem.

The Securities and Exchange Commission brought an injunction proceeding against the defendant, found a violation of the securities law and of the injunction, subsequently a thirdparty brought a private action claiming that violation caused him injury, there was no question that

it was exactly the same violation. The plaintiff said to the defendant and the Court he already tried it, he has had a fair opportunity, invoke collateral estoppel. No, said the Fifth Circuit, ordinarily we would, if there were two court trials, but in order to preserve his right of trial by jury, we are simply not going to allow the plaintiff to advance collateral estoppel, so as applied here, if we have, as Professor Handler is going to tell us about all these problems, and unless Xerox tells us what -- how are we going to get to adjudicate some of the merits, if we have all of these problems, then we ought to get to a trial of the issues before your Honor, and a ruling that when weget to the damage question: that is, our monetary damages, SCM will not as a matter of law under Rachel against Hill be entitled to claim collateral estoppel.

THE COURT: You mean not only at the damage issue, but when the damage side of the case, when the liability issues are put to a jury?

MR. KAYE: That's right, the whole case, as far as -- because what we will be -- what we would be trying under this imperative circumstance, we would be present and future injury and what we would try later on would be the past injury. In any event, SCM would not be allowed any collateral estoppel with respect to past claims from anything that happened in the

first case.

We don't, of course, urge your Honor to do that, but what I'm saying is I am stating that on the basis that everything Xerox says about severance is correct, or that your Honor agrees with, because, otherwise, we are left nowhere. On the preliminary injunctive relief, I think that I have covered a good deal of it, let me just sum it up. Xerox in their opposition says: let's brief the question of whether if we had a preliminary injunction hearing, there is anything that this Court could grant.

And this, I think, yourHonor, we have made the presentation, we addressed ourselves to the question that you asked in the conference, if you have your preliminary injunction hearing, what are you going to show as your irreparable injury? I don't think that we need brief, in fact, Xerox has briefed the question, which we all accept, that if the Court finds that there are acts which are going to change the status quo, that as the chancellor, he is entitled to enter preliminary or permanent injunctive relief. They say that with respect to Zenith against Hazeltine and said in the Danielson case, the failure to issue an injunction here maintains not the status quot, but protects what the Court below has found the board had reasonable grounds to believe is a violation of the statute.

So the status quo is being changed every day by Xerox, therefore, we can --

THE COURT: Which case did you just refer to?

MR. KAYE: Danielson versus Local 275, May 31, 1973, the Second Circuit. I have the slip opinion. I don't have the --

THE COURT: As to preliminary injunctive relief?

MR. KAYE: Yes. Page 3901 of the Second Circuit slip opinion list. Xerox -- so that there is no question about the legal principle, we don't have to brief that any more, and the question of whether or not we are going -- whether there is going to be a change in the status quo, we thought we addressed ourselves to that in the brief, we think we did, and we have done it today.

Therefore, we have our motion here for a hearing on preliminary injunctive -- for hearing on a preliminary injunction. We think that that ought to be granted: that is, a date set for the preliminary injunction. Assuming that, as we urge your Honor not to do, you deny our severance or you deny us a trial of the severed matters on May 1, what we would like your Honor to do is to set the severed matter, and I am coming to that point now, for May 1, and if you later determine that the parties are unable to reasonably prepare by May 1, then use the May 1 date to hear our preliminary

injunction motion. It will not be an essay in futility, as Xerox has said, for the reasons that I have said here. Now, why -- I think I explained it in our last pretrial conference, but let me try again, why are we saying: let's go to a severed trial first and only to a preliminary injunction? Because, first of all, we think we can make a May 1 date or thereabouts, subject to your Honor's convenience, but if we can have a severed trial, then we are going to have a real determination, since the jury determination that Xerox wants, and that's final, it's not a question of likelihood of success or not likelihood of success, but it also avoids two trials.

If we have -- if we were to come to court on the 1st of February, or the 15th of January on a preliminary injunction hearing with our evidence, and we would on a preliminary injunction try to keep it as far as possible, we have done a lot of paring down and pruning, but if we have to come and have a preliminary injunction hearing, and Xerox is going to be entitled to put on its defense, we are going to have to do it twice.

Maybe we are going to have to do it twice, but our idea is let's try to get to May 1 before the jury on the severed issues because if we do it that way, then it will only be once rather than twice. In the Vesco case, they severed out two out of the four claims and had 13 out of the 27 defendants,

the Securities Exchange Commission made a motion in October or November, I can't remember now whether it's a year or two years ago, and the Court then had a preliminary injunction hearing starting about four months later, originally it was scheduled for February 1, and then March 15, and then they had a two-month preliminary injunction hearing.

Now, we think that on the basis of the need to get to a point, at least the likelihood of success, that we should have a preliminary injunction hearing sometime in the spring of this year, but if we can possibly do it finally before the jury, that would be obviously the desirable alternative.

THE COURT: I think that the issue that they thought should be briefed with respect to an injunction was not so much altering the status quo. You're quite right, that's in their papers, but I think they were more concerned that whether the kind of damage you were talking about was irreparable.

MR. KAYE: Your Honor, we submit on that, that as a potential competitor coming in in 1965, with a new design and as an actual competitor, that thepapers that we have put in, the facts from their own files, demonstrate that there day-by-day acts constitute an irreparable injury to SCM as a potential and actual competitor.

THE COURT: Yet, at the same time, you tell me that after the severed trial, I can impanel a new jury and without producing very much of the same ground, you can show them exactly what your damages are?

MR. KAYE: No, that's where, your Honor -- when we were talking in the conference, there is a sharp demarcation between the future and the past. In showing irreparable injury in the future, we don't have to show -- irreparable injury doesn't necessarily admit dollars and cents, profits or loss.

We are talking in the future as to what other kinds of barriers that we face. We have a product line now --

THE COURT: What way are you injured in other than dollars and cents, your client --

MR. KAYE: Our ability to try to compete, our ability to compete because of their continued maintenance of technology, because of their widening --

THE COURT: Isn't that also -- on any day, you distinguish it between a future and past, but any day that the damage issue is decided, which may be a little bit later than you thought the hearing was going to be, some of what is then going to be past damage is what you are now viewing as future damage.

MR. KAYE: That's right.

THE COURT: But it's going to be the same damage, isn't it? It's going to have the same dollar value.

MR. KAYE: I think the whole point is monetary damages are always inadequate.

THE COURT: That's the issue they think ought to be briefed, whether in this kind of a case damages are always, as you say, inadequate.

MR. KAYE: May I address myself to that right now, because -- in the government case where an injunction is granted, it's done on the basis of irreparable injury to competition, under Section 26: that is, USC Code Section 26, I don't remember the Clayton Act number, a private party is entitled to equitable relief, likewise, under equitable principles, so that if your statement of Xerox's position is correct, that we should just wait for money and thatour attempt and the people of SCM try to go out and compete, that's too bad, but I think that we have -- it's been recognized and recognized in the A&P case -- we as private attorneys --

THE COURT: That's what I'm wondering. I don't think they are saying that at the end of the case you are not entitled to equitable relief if you win. You don't have to keep coming in every five years and sue for your damages in that period, I don't think they are making that claim, but they are raising a question of whether as a matter of temporary injunctive relief you can get equitable relief during that interim period for things that will be compensible at the time

the trial is reached, and really, I thought this was your point, the only real answer to that is your role as private attorney general.

MR. KAYE: On that, there is no question that Borden correctly states we have to -- back in 1954, we have to show a violation, injury and so forth. There has been a growing recognition to the Hawaii case in the Supreme Court cited the very page that Xerox cites of the enormous importance of the private attorneys general because the recognition that the government can't do everything and also the recognition that the government sometimes --

THE COURT: Where in the antitrust field is that notion established in the context of temporary relief?

MR. KAYE: In the A&P case, where A&P brought a preliminary injunction proceeding to restrain -- this is the Second Circuit Court of Appeals -- to restrain the Gulf and Western, the Court of Appeals says that where this is a matter of major importance, and this involves the question of takeover of A&P and -- we are going to apply the same standards to the private party as are applied in a government proceeding, as if this were a government proceeding.

We cited the A&P case in our earlier brief on the Rule 8 motion and, your Honor, we will submit that citation. This is -- I guess this is where we are. We are at our capacity

as a private attorney general to have this preliminary injunction because Xerox's point in their brief is -- and I don't have it noted so I can't put my finger on it -- is that we can't show that because of the kind of relief they say we want, we are not keeping this status quo, but they admit that this Court has power to grant injunctive relief where the status quo is being changed, to prevent the change of the status quo, they admit that. Page 30, I believe.

THE COURT: What I have to do now is grant a little severance with respect to the argument. I realize you still want to deal with the confidentiality aspect.

MR. KAYE: I'm not going to deal with confidentiality.

THE COURT: Your side is.

MR. KAYE: I have not yet dealt with May 1, '74, and I would like to do that, I appreciate it's been a while -- I think that Xerox will agree that this particular argument, this motion is going to have a tremendous effect, if not control the entire proceedings, what parties may spend thousands, I hope not more than tens of thousands of hours.

I would like to deal with that.

THE COURT: Is that going to get us into the whole issue of the extensiveness of their discovery --

MR. KAYE: It's only going to deal with two issues, your Honor, I'm not going to get into -- I'm not going to --

I'm not going to get into the Rule 37 part of it, whether or not the can answer by December 17.

If your Honor will give me ten minutes, I will conclude.

THE COURT: I am wondering if we shouldn't take a short recess, hear them on the basic issues that you have raised of severance at the extent you touched on equitable relief, and then talk about the problem of timetable? Otherwise, we really begin to squeeze out their argument of time.

MR. KAYE: Professor Handler can use this side of the table. Let me say this and then I will sit down. This somewhat relates to the question of severance. They say there is going -- they don't come -- they don't make any response at all to our argument that their claimed discovery on the market definition is, at best, going to be very limited. Then instead of dealing with what they call, and correctly, the threshold issue in a monopoly situation case, the threshold issue is mine -- so, therefore, it seems to us that the threshold question as to schedule ought to be what kind of discovery we are going to have in mind, but, no, Xerox says this isn't the time and place to do it, because we are going to wait for all the evidence to come in, but that presupposes they are going to have the right to go out and get all this evidence, and certainly if we are going to be in this court, we are going to make every effort to

narrow that discovery down --

THE COURT: I think all they had in mind, this hearing doesn't have pending the discovery motion.

MR. KAYE: But they do not come to the question of what it is they are going to go out -- that is, going to be this enormous extensive discovery. I am going to come back to this, but what they do do, they turn and say, put aside marketing, there is anothing question of exclusion impact.

And on that, I would like to address myself this afternoon, and that is the function of the third book that I gave you, which is called capabilities, where we include a 1965 profile by Xerox on SCM, which describes probably better than SCM knew it, its own manufacturing capabilities and its abilities to be a competitor, and then a 1970, what's called competitive threat estimate, where they take 18 companies and they have -- we have not put all the 18 companies in, we just put in SCM, but we also put in a score sheet, they have a score sheet on everybody, on that point, too, which I think Professor Handler probably will tell us, is going to take a lot of time, that one we will address ourselves to, but in any event, whatever amount of time we are going to take, whether it be May 1, 1974, or a later date, our point is that the severancewill bring us to trial much sooner than if we have to go into damages and any patents, and that in any event, we get to go to

the preliminary injunction.

THE COURT: We do have some time problems today. I would like to by 3 o'clock let the Litton--Xerox issues come on for a hearing.

MR. KAYE: May I suggest this? I don't know enough abou tit, is it possible that you haveit scheduled for 2:00, is it possible that -- those issues will take an hour or an hour and a half, and we could resume after that?

THE COURT: Maybe theparties can tell me. I originally thought it was three,because I thought those were extensive. They involved details and that's --

MR. KAYE: I saw there were two motions that said extending time to complete discovery, and then there was the third motion was Rule 37.

THE COURT: It's a deceptively easy motion, I suspect. It sounds like a deadline, but in order to lay out the problem, they have to particularlize their claims, so I would like to shoot for a 3 o'clock target so I want to have some division of time. So I will take a short recess now, hear the Xerox side, at least as to what's been raised, and then after lunch deal with what we can, and, of course, you can always file additional memos if you want to on things --

MR. KAYE: Insofar as we are concerned, if we can have the oral argument on three motions, we are not desirous

of submtting anything else, but we -- if we don't complete today, would it be possible that we be heard on the other motion on Monday or Tuesday or sometime next -- Monday afternoon or Tuesday, assuming today is devoted only to the Rule 42 motion?

THE COURT: Well, number one, that's going to be difficult, and number two, I'm not going to decide that until the end of the day until I see how needed that is.

Take a short recess.

(Recess taken.)

MR. ROBINSON: I am delighted to add here to your Honor's pinpointed question that the motion that I thought that was before the Court this morning is not before the Court at all. It's perfectly apparent that SCM has changed its motion, this is not a motion for a separate trial on the issue of violation. It's a motion for a separate trial on the issues of violation and injury on everything, as your Honor put it, except the amount of the damages.

I would like to make that crystal clear so that there is no mistake about it. I think if we go to Paragraph 57 of the complaint, which is the second claim of damages, you will see that SCM has alleged the species of injury of which it is complaining, and we get to Paragraph 58, we get to the quantum of damages.

In 57 it says that XErox's continuing unlawful

monopolization, exclusive control and acts and practices of restraint of trade in competition with respect to the skill and technology and the manufacture and marketing of plain paper office copiers caused damage to SCM because they effected high barriers against competitive entry and because they excluded and restrained SCM in American interstate and foreign commerce, A, for manufacturing and marketing plain paper copiers; B, from engaging in related business activities such as the rendering of service and the sale of supplies for plain paper office copiers; and C, from earning profits from the conduct of such business activities.

Those are all injury allegations. When you get to Paragraph 58, you come to quantum of damages, to wit: by reason thereof as presently estimated by it, SCM has been damaged in the amount of at least $145 million, et cetera.

Now, that kind of a separate trial, your Honor, is quite different from the separate trial on the issue of violations as they put it in their moving papers, and I just want to be perfectly clear that those arethe ground rules, those are the amended ground rules so that I can eliminate half of my argument.

THE COURT: I think it's very clear. Whether it results from a change of position or a clarification of what was originally intended, I don't know, and it doesn't really

matter, but I think that Mr. Kaye's position on that was absolutely clear.

MR. ROBINSON: Then, I shall proceed on that assumption and then direct myself to the next question, a much narrower question, which is should there be a separate trial on the issue of quantum of damages following a trial on the issues of violation and injury.

We submit, your Honor, that it would not further the objectives of Rule 42B to sever the quantum of damages issue in the circumstances of this case. I say this because the facts pertaining to the quantum of damages are so closely connected to those relating to impact on SCM that trying them separately would inevitably require a substantial repetition of the evidence.

I think some of that came out in the colloquy that you had with Mr. Kaye. We are not saying that you cannot ever have a separate trial on the issue of damages in an antitrust case, I can well conceive of a price fixing case where you could very readily have a trial of the question, did the defendants conspire to fix prices, and having answered that question in the affirmative, if you have a group of plaintiffs, for example, who are customers of the defendants and who purchase the product at the fixed price, you could have a separate trial on the issue of the extent of the overcharge, which really

involves no reptition at all, as far as I can see, of the trial of the issue of whether there was a conspiracy to fix prices, but that's not this case, we are dealing with a charge of monopolization, of a variety of acts and practices which are said to have constituted the monopolization, and I think that a jury, a second jury, a different second jury, not having heard the evidence of injury, which will inevitably be presented at the first trial, would be sitting there in total mystification if they were asked to pass in the abstract on the element of the quantum of damages.

I think that what the measure of damage involves is putting a dollar sign on the injury allegedly sustained by SCM, but it's not something that can readily be grasped in the abstract, just take this one matter, you had reference from Mr. Kaye to the matter of Rank Xerox, and there is an allegation in this complaint that SCM was excluded from exporting commodities to the rest of the world. Now, that's a matter that relates directly to the issue of violation and competitive impact and that could produce a species of damage which the jury would have to pass upon ultimately, but it would have to be directed to a claim of international cartel, it wouldn't be directed to the claim of worldwide monopolization of the skill and technology.

It would have to -- there would have to be the

causal connection, and the jury just couldn't understand what this evidence was all about and pass upon the question of damage without also having heard the evidence of injury.

So in the final analysis, we think that a separate trial on the measure of damages would be duplicated and wasteful. The one way of avoiding the duplication and the waste is the one that we suggested in our brief, and that is to have the separate trial, if you are going to have a separate trial, on the issue of damages, before the same jury immediately following the first trial on the issue of violation and injury.

If there is no finding of violation and injury, then you don't have to go forward with the second trial, but if you do find the first two elements, then you would proceed, but you would proceed promptly, immediately, before the very same jury which had a total grasp of all of the facts.

There is really nothing to be saved here in any consequential sense by having a separate trial before a separate jury.

Mr. Kaye's real objective is to avoid a lot of pretrial discovery, but he is not avoiding very much at all. He is avoiding some discovery with respect to the dollar sign, but he is not avoiding the discovery with respect to violation, with respect to exclusion, with respect to specific injury to SCM.

So I really think that what we are talking about here is something that produces no tangible benefits for SCM in terms of expedition, which is one of the purposes of Rule 42B, and would leave a -- if granted, it would leave the second jury in a hopeless state of confusion unless you had a very, very substantial repetition of the evidence at the second trial.

I think that what this indicates, if my proposition makes sense to your Honor, is that we do not have any stay at all of discovery with respect to the antitrust issues in this case, even if we were to have this separate trial on the quantum of damages following hard on the heels of the first trial, you obviously have to have all your ducks in a row and you have to have had your discovery, so that we would go forward on that front, on the discovery front with respect to all of the antitrust issues under the program that I'm suggesting here.

In the final analysis, I think what this case really calls for is one trial before a single jury of all of the antitrust issues. That's the way most antitrust cases are conducted.

I would like to say a few words about the effort of Mr. Kaye to distinguish this case from the FTC case and from the Litton case, because I think he tried to create the impression that this was a teensie-weensie lawsuit and far narrower in its scope than what has been alleged against

Xerox by the FTC and by Litton. That won't hold water, your Honor.

Let's take a look at the SCM complaint. Mr. Kaye would have your Honor believe that this case has nothing to do with marketing. Well, if that is so, I don't understand why I keep reading about marketing in this complaint. I would like your Honor, if you would, to turn to Paragraph 1A, three violations set forth in Paragraph 1, subparagraph A talks about monopolization in violation of Section 2 of the Sherman Act, and what is it that we are supposed to have monopolized, and attempted to conspire to monopolize, the skill and technology and manufacture and marketing of plain paper office copiers.

When you get to Subparagraph B, which is their claim that we violated Section 1 of the Sherman Act, what is it that we have supposed to have unreasonably restrained trade and commerce in, in the skill and technology and manufacture and marketing of plain paper office copiers; and finally, when you come to Subparagraph C, which is their section 7 violation, they say Xerox has made acquisitions of patented and unpatented technology, other assets and stock having the probable effecdt of substantially lessening competition or tending to create a monopoly in the skill and technology and manufacture and marketing of plain paper office copiers.

You then turn to Paragraph 10, which is the relevant market allegation, and Paragraph 10 says, the skill and technology of plain paper office copying, the manufacture of plain paper office copiers, and the marketing of theplain paper office copiers are each a separate part of trade or commerce and line of commerce under Section 2 of the Sherman Act, and Section 7 of the Clayton Act, respectively, and involve a substantial amount of trade or commerce under Section 1 of the Sherman Act, and there just can't be anything clearer in the English language, your Honor, they are charging that the marketing of plain paper office copiers is a distinct line of commerce under Section 7 and a distinct part of trade or commerce under Section 2.

If you look at Page 7 of the complaint, the caption that is set forth between Paragraphs 25 and 26, you see in bold type, "Since 1961 Xerox has unlawfully exercised, maintained and enlarged its acquired monopoly power and unlawfully restrained competition with respect to the skill, technology, manufacture and marketing of plain paper office copiers."

I don't think I have to gild the lily here, your Honor, it's perfectly plain that this case is a marketing case, as well as a technology case, and if it's not supposed to be a marketing case, then these allegations have no place in the complaint.

Now, Mr. Kaye is right in one respect. This case is not a carbon copy of the FTC case and it's not a carbon copy of the Litton complaint. Because this case, unlike the other two cases, involves a charge of worldwide monopolization.

If you look at Paragraph 25, SCM says, "By 1961 or no later than 1963, Xerox had acquired and achieved worldwide control and monopoly power over the patented and unpatented skill and technology of plain paper office copy," and then if you look at Paragraph 26 -- excuse me. 27E -- it's said that, "The acts and practices of Xerox since 1961 include, among others, perpetuating its exclusive control over the service of most of the scientific and technical personnel possessing skill or experience in xerography, and building a technical community under its exclusive control, which by 1972 included about 95 percent of the world's personnel proficient in xerography."

We don't have any of that in the Litton case and we don't have any of that in the FTC complaint, and I submit, your Honor, that allegation in itself transforms what would be a monumental case in its own right if it were confined to the domestic sphere into something that absolutely boggles the mind.

It's a very peculiar way of going about drafting a narrow complaint.

That brings me to SCM's request for a trial date of May 1, 1975 in all certainty --

MR. KAYE: I'm sorry for interrupting, but I did not -- I don't know that you wanted to get on to that question.

THE COURT: We have a problem of division of time, I'm going to allow Xerox counsel to use their time as they see fit.

MR. ROBINSON: I can assure your Honor I will take one-quarter of the time that Mr. Kaye took.

THE COURT: I will hear you with respect to everything that's been presented by these papers.

MR. ROBINSON: Your Honor, there is simply no way that a case of this magnitude involving a charge of worldwide monopolization can possibly be ready for trial by May 1st of next year, and it's utterly naive to suppose otherwise. Even SCM is frank enough to admit that if Xerox obtains pretrial discovery with respect to definition of the relevant market, just one issue, the threshold issue, there can be no trial on May 1st.

To obviate this minor problem, SCM boldly proposes that we should forego discovery on that issue. SCM would have your Honor believe that the relevant market is what SCM says it is, namely: that it is confined to plain paper office copiers, and that Xerox should not be heard

to say otherwise.

Xerox does say otherwise. It maintains that the market includes not only plain paper copiers and coated paper copiers, but other duplicatingequipment, such as offset, stencil and spirit equipment.

The plaintiff would like to argue about what legal principles governdelineation of the relevant market in an antitrust case before the facts are presented.

WE are old-fashioned enough to believe, your Honor, that first you get the facts and then you apply the law. I have no intention of arguing the merits of the market issue at this time, but I think your Honor would be interested in knowing that SCM did not always view the market as myopically as it does today.

In 1970 when it was petitioning the Supreme Court of the United States to reverse an adverse determination by the Fourth Circuit in the Advance Business Systems case, it included coated paper copiers together with the plain paper variety in the relevant market. The quotation from its petition for certiorari set forth in the footnote at Page 40 of Xerox's brief makes very interesting reading.

I might also say,your Honor, that for a litigant who maintains that there is no issue as to the relevant market, it's very curious that SCM should have served us with interrogatorie

which go into that matter. Their interrogatory number 50 reads as follows: State for each year beginning 1970 the number of Xerox plain paper office copiers by model number replaced by coated paper office copiers, other coated paper office copiers, duplicators, other copiers, or other duplicators by model number," and then their interrogatory number 51 gets at it from the other end by asking; "State for each year beginning 1970 the number of coated paper office copiers, other coated paper office copiers, duplicators, other copiers and other duplicators, by model numbers replaced by Xerox plain paper office copiers by model number."

It seems to me, your Honor, that the issue is very much in this case, it's absolutely unavoidable and you simply cannot try a monopolization case without addressing yourself to it at the very outset as to what the relevant market is.

This matter of market definition is a matter of factual proof, not legal argument, and Xerox is entitled to full discovery on that issue. Discovery which will inevitably call for the production of documents from the files of SCM and other competitors to determine what is the true area of effective competition.

In this connection it should be noted that one of the criteria that is relevant to a determination of the

relevant market is the factor of industry recognition. The Supreme Court specifically so held in the Brown Shoe case, and there is no better way to elicit proof on this question than to examine the documents of competitors.

But even if there were no relevant market issue at all in this case, your Honor, it would still be humanly impossible to try the issue of violation and injury in May, 1974, given the breadth of the allegations of SCM's complaint.

What is Xerox charged with? Worldwide monopolization of the skill and technology relating to plain paper office copiers. Monopolization of the manufacture of such copiers, monopolization of their marketing, illegal acquisition of patents and technology, blocking the entry of potential competitors, participation in an international cartel and worldwide division of territories, restraining exports, illegal acquisition of stock and assets in addition to the purchase of patented and unpatented technology. I could go on and on.

To defend against these sweeping allegations, Xerox will be impelled to engage in equally sweeping discovery. Just let me cite one example, in view of the claim of worldwide monopolization of xerographic skill and technology, we are entitled to discover facts concerning the state of the relevant technology throughout the world, as well as Xerox's

technological position in relation to that of its competitors and potential competitors, including SCM. That alone is a task of huge proportions.

At the risk of stating the obvious, this is no ordinary lawsuit. This is a case brought by a competitor seeking to dismember and cripple a company which has spent hundreds of millions of dollars for research and development in a field of technology which it has pioneered. The very least that it is entitled to is to defend itself.

It ill behooves SCM, having entered the legal arena years after it allegedly was denied a license to practice Xerox's patents for plain paper copying and having filed its complaint long after the FTC and Litton, to use a crude expression, to try to give us the "bum's rush", your Honor.

I might add that while SCM continually presses for expedition, when it is a question of the trial date or a matter of securing voluminous discovery from Xerox, the plaintiff has no qualms whatsoever about dragging its feet when it comes to responding to our documentary requests.

On the one hand, we have produced already over 75,000 pages of documents, plus a number of answers to interrogatories. On the other hand, SCM thus far has refused to provide us with a single document from its own files, despite the fact that we served our documentary requests on them almost

three months ago. Incredibly enough, SCM has objected to every one of our requests, and would not even agree to discuss its objections until next week.

Your Honor, pretrial discovery is not a one-way street. There is such a thing as fair dealing in litigation, and, frankly, we would like to see some of it. In short, even if SCM were to be granted a separate trial here, its suggested date of May 1st, 1974 is simply out of the question.

I would like to digress for a moment to express my mystification as to the relevance of Mr. Kaye's references to Xerox's long-range plan on this motion.

Frankly, he sounded like he was summing up to the jury, on the basis of one document, no less. We are a long way from that, your Honor. This is not a trial here today. It's not even a motion for a preliminary injunction, it's a motion for separate trial. And this is not the time nor the place to argue the merits, or for me to correct Mr. Kaye's factual misstatements.

It does seem to me, though, that we could, with a little greater discipline, confine ourselves to the matters at hand.

I come now to SCM's alternative request that if it cannot have a separate trial on May 1st, its motion for a preliminary injunction should be heard at that time. To pursue

that avenue, in my judgment, would be futile for the reasons that I adverted to when this matter was discussed informally in your Honor's chambers in September. I am sure your Honor will recall that I made the point then that the nature of the interim relief that SCM was seeking in its preliminary injunction motion, including mandatory licensing of all of Xerox's patents, is not the type of relief that the Courts grant pendente lite because it seeks dramatically to alter the status quo rather than maintain it, and without any demonstrable injury to SCM which is not compensable at all.

At that time, I suggested that before the parties embark on a program of truncated discovery, which will inevitably wind up in a blind alley, the Court should have this matter briefed. I believe your Honor was receptive to that suggestion, at least in the event that SCM decided to press its motion for a preliminary injunction.

Accordingly, if your Honor denies the request for a separate trial, and we think you should, we ask that you thereupon and promptly establish dates for briefing and argument of the legal issue, of SCM's right to the type of preliminary relief set forth in its complaint under the circumstances of this case.

It is my further suggestion that no date should be set for any hearing on the motion for a preliminary injunction

before this fundamental initial legal question is disposed of by the Court.

A few words about the patent phase of the case. As our brief indicates, we have no objection to the severance of the patent issues from the antitrust issues, they are clearly distinct issues and should be tried separately.

We do, however, strenuously object to the stay which SCM is also seeking with respect to the patent proceedings. We say that we are entitled to prosecute our counterclaims for infringement of two patents, one of these, the 006, is involved in the Dennison and Litton cases, and the second, the 884, is not.

As to the latter, nothing decided by the Court in Dennison could obviate litigation here, hence there is no justification for staying Xerox's prosecution of its infringement claim with respect to its 884 patent.

Insofar as the 006 is concerned, while this patent is involved in Dennison, it doesn't follow that SCM is entitled to the stay simply because of the Blonder Tong doctrine.

I don't think I have to labor this point because, as your Honor knows, Xerox has been permitted to pursue its infringement claim with respect to the 006 patent in the Litton case, and the same rule that applies to Litton should apply to

SCM.

In conclusion, except for granting a separate trial with respect to the patent issues, we respectfully submit that SCM's motion should be deniedin all respects.

Thank you, your Honor.

MR. KAYE: May I briefly address myself to three questions -- three matters as to the severance, and then I will go to the time.

First, Mr. Robinson made an effort to say that this case is like the FTC case and the Litton case because it involves marketing.

I think it was made clear in theoriginal complaint -- I hope it wasmade clear then and made clear in this complaint, if it was not, let me make it clear so that it shall be taken care of for all time in this case -- our complaint and the theory of the complaint is as follows: Xerox acquired the patented and unpatented skill and technology of plain paper office copying, xerography. It kept it to itself, it maintained that power, and thereby, it excluded others from the skill and technology, and because others, such as SCM, didn't have the skill and technology, they couldn't manufacture the office copiers, and they couldn't market them.

Now, that is our marketing case. It does not involve any marketing practices, that's what the FTC and Litton

have, so that we are talking about exclusion and we are talking about --

THE COURT: Is your complaint framed along that theory?

MR. KAYE: We thought it was, and we thought the original complaint was. The original complaint used the expression --

THE COURT: Your 1A doesn't limit the marketing monopoly claim as being a consequence of the skill and technology claim, it sets them out as separate items.

MR. KAYE: If it does that, I say now on behalf of SCM that it's the-- that the marketing claim is -- that is, the violation of law with respect to marketing is because of the consequence of Xerox's unlawful acquisition and maintenance of the patented and unpatented skill and technology of plain paper office copying.

If you go back to the original complaint, the original complaint, your Honor, did use the word "therefore" in thatfirst paragraph, and I refer to Paragraph 1 of the original complaint, "This action concerns Xerox's unlawful monopolization, of violation of Section 2, of the skill and technology of plain paper office copying, and, therefore, the manufacture and marketing of plain paper office copiers."

Now, it was never our intention to change-- the subsequent allegations only deal with the consequences of

skill and technology, that is, for example, as we now know based on papers which I received yesterday, that in the first four years that Xerox was marketing machines, these two machines, that there were seven patents that covered all those machines, all those patents were acquired from Battelle Memorial Institute, they were bought and paid for, and it was underan arrangement whereby Xerox had the sole and exclusive right to everything that Battelle did, and it had that right for seventeen years.

We say that violates Section 7 of the Clayton Act and violates Section 1 of the Sherman Act, as well as Section 2 of the Sherman Act.

THE COURT: Even if you either orally or through some amendment structure your marketing claim as a consequential claim flowing from what you apparently regard as your primary claim, you are still alleging a marketing violation which they have to defend against.

MR. KAYE: Yes, your Honor.

THE COURT: That requires them to assemble evidence of matters that go far beyond how much skill and technology they have and how they have acquired it and maintained it.

MR. KAYE: That's right. When we get to the question of what is the proper marketing -- there are three levels -- is the skill and technology of plain paper office copying a relevant submarket as contrasted to the skill and

technology of coated paper office copiers?

THE COURT: No, I don't mean defining the relevant market. I understand there is a dispute on that, but your view of this case is that we don't have to be too much concerned with evidence of monopolization in marketing.

MR. KAYE: My point is that we don't have in this case the highly complex matters of whether or not Xerox was engaged in discriminatory marketing plans. They have 34 marketing plans, they have made all kinds of allegations of meeting competition. We are not here dealing with the marketing question of whether or not their lease-only policy, ala United Shoe, was or was not illegal. We are not dealing with claims of whether tying arrangements were illegal, we are not dealing with claims of whether tying service to the lease of machines was illegal. All of those problems are separately legal issues, and I think Mr. Robinson will agree, they are not here, but they are all kinds of problems that themselves by their nature oftheir problem will generate enormous discovery because they involve finding out what happened out in the marketplace.

I am not at all saying there is nothing to be done here in marketing. What I'm saying is that it's substantially narrow.

The other point -- and I do want to rush, I know that the time is -- when Mr. Robinson and your Honor had your

colloquy and Mr. Robinson stated his present understanding of our view, which I think -- he said we are going to try everything except damages. That's partially correct. We are going to try everything under our severed trial except damages, which is Section 4 of the Clayton Act, and present and future likelihood of injury, which is the equitable side of the case. That is, the two sides of relief, legal and equitable, remain to be tried out. Am I clear on that?

What we will try, what we call the issue of violation as we have alleged it in the complaint, which is: did they violate the law, including all of the effects, only one of which is the injury dealt to SCM.

It will be for the Court to decide whether or not in the future there is a likelihood of injury and if so, what would be the proper remedial relief.

As to that we may put in, after we have had our jury trial, if we have one, a good deal more evidence to support the kind -- we put on experts to support the kind of relief --

THE COURT: Puttingto one side those items of evidence which would not have to go to a jury in the first place --

MR. KAYE: That's correct.

THE COURT: -- but as to any bit of evidence that would have to go to a jury, you are severing out only the

quantum of damages?

MR. KAYE: That's right, your Honor.

Now, Mr. Robinson referred to a price fixing case, and you could put that separate -- Xerox refers to in their brief the fact there have been severances along these lines in previous cases, they don't deny that. And as he was talking, I was wondering why just as to the one example he uses, price fixing, why there is any difference here where we are talking about exclusion. It seems to me that if it's established in the first case, in answer to the question that I -- the fourth question, was SCM wrongfully excluded from the skill and technology of plain paper office copying and, therefore, from the manufacture of plain paper office copiers, from then on we are in the same position as the price fixing case.

Now, when Mr. Robinson said that if what we ought to do, if there is a severance, there should be no stay of quantum of damages, because what we should do is have the trial before that jury on the question of what I call violation, liability, and then if the verdict comes in for SCM, then we go right onto damages, and we admit that we have to go through the discovery on quantum of damages, and he said in the Litton case it would be exhaustive, so what the real effect is, that we are going to delay getting to that jury for three or four years.

Now, that's a consequence of their demand for a jury trial, and they can't complain. If we had a bench trial, we certainly could have that division under Rule 42, the Court certainly could stay the damages because it's the evidence that came in to the Court on the original violation issue would be before the Court, just as under Rule 65, if you have a preliminary injunction hearing, once you put the evidence in, if it's tried before the Court, you can hear it.

Now, that's not SCM's fault.

THE COURT: It may be nobody's fault, it may be a consequence of --

MR. KAYE: It's a consequence of a claimed right to a jury trial. I submit to your Honor that to have a trial five years from now or four years from now, when one is available, simply because Xerox now says it wants a jury trial, is something that they can't have their way in all regards. This is a question of a consequence of their own claims, it's not a consequence of us coming into court and I think we have said enough here, it's certainly perfectly plain that Xerox, which has not come in andsaid: let's do it this way and that way. All that Xerox wants to do is make sure we never get there.

Mr. Robinson talks about this enormous problem of worldwide cartel and he read you the allegation from our complaint saying that Xerox has 95 percent of the world xerography.

Your Honor, we rest on that point on the 1972 plan --

THE COURT: Why should this rest on that? That's his point.

MR. KAYE: That's right, let's look at that. What discovery do they want? Let Xerox come in and say in our wildest dreams if we go out and talk to 122 companies around the world, let Xerox come in here and tell the Court what it hopes to prove by way of what will lead to admissible evidence to overcome what they, who know more about this than anyone else in the world, have already said what their top management has said. This comes to the question of discovery.

Mr. Robinson says in his brief and he says to oral argument: that I'm not going to discuss with you the market question. I want complete discovery. Suppose on the basis of our papers, we hope your Honor has the opportunity to study them, not only the brief, but those 13 exhibits on -- let me just take one. Exhibit 12. Xerox says in its 1971 long-range plan -- this is in the small supplement that I just gave you -- in the future the primary competition for Xerox will be competitive plain paper copiers, just getting finished saying -- describing the basic inferiority of coated paper copiers to plain paper copiers.

Now, in the light of everything they know and -- Judge Wozanski said the best people in the whole world to

know about an industry is the leading producer, United Shoe. We agree that the people who know more about copying is Xerox. Witness the long-range plan and all of the information they have. So that's our effort, let's talk facts, Xerox, in our view, has to come in here and say to your Honor: we want this discovery because this is what we want to prove. Under the protective order provision of discovery, they are just not entitled to go out and sweep the world for evidence, they have to show, that against an objection, that it has the -- it may lead to admissible evidence. Admissible evidence means it has to be material to an issue, therefore, there has to be an issue defining process.

Mr. Sobel said when moving againstour complaint that we are trying to do too much in the original complaint. Let's wait and use Rule 16. That's what we want to do, we want to have issue determination, because -- let me takemarket. The question of market. We have shown that the -- first, you start on market on legal principles, that where relevant submarkets involve -- as example, first run films, championship boxing matches, if it's the cream of the business, that's a relevant submarket. We say that in this -- in these two little books, that it's established that plain paper office copiers is the cream of the business and, therefore, a relevant submarket. In United States against Alcoa, there is copper insulator and

there is aluminum insulators, and copper has 23 percent of the whole market and they compete against each other, and copper is there, but the Court said they are divisible for purposes of the antitrust laws.

Now, let's assume that on market, we are not 100 percent correct, which means we couldn't get a ruling from your Honor under Rule 16, that's a matter of law based on our evidence, that there is no market issue here for discovery. Maybe we can get that ruling from you, and maybe we can get it from you on the 13 exhibits we have given you, we think we ought to be, but suppose we are 95 percent correct or 90 percent correct, do we have to have discovery from 64 companies in millions of documents, that's our point. Our point is that this can be managed, that we don't have to be in this courthouse for 15 years, SCM can't, but I think that Xerox would like to be.

THE COURT: It's an unusual doctrine that because you are 90 percent likely to win on an issue, the other side can't make their bet and say: give us a reasonable time to develop our case and we will show you that while the odds are only ten to one we were right --

MR. KAYE: I'm not talking about ninety to one, what I'm saying is they have to come in and say: Judge, against what Mr. McCullough said in 1972, which is identifying plain

paper copiers as a separate identifiable -- against our own recognition back in 1964 when Mr. McCullough says that the last person we want to license is IBM as a competitor of ours, is our competition, against allof these evidences that show under established legal principles, that that is a separate submarket, I say given what all of the knowledge and the facts they know, and they know more than anybody else, they have got to come into your Honor and say: if we go out to SCM and all these other people, and we are just one of many, this is what we hope to find, and if we find it, that will be admissible evidence, that will be material that we can put to the trier of the facts.

THE COURT: You don't think that seriously if I tell them they have to make that kind of a demonstration to me, they are going to fail that hurdle?

MR. KAYE: No, I want you to make that and I ask you to direct that, and not only on that issue, and because that's precisely -- your Honor, I think we will -- our views will be tested against their answer, taking that -- just these six or seven exhibits, and these two books that I have given on market, that's exactly what we want you to do, that's exactly how we think that this case ought to be shaped, on this question of market, and on this new issue that they raise about all the discovery they are going to need on capabilities.

We put in another little book on that which we show that they got full knowledge of everybody's capabilities or lack thereof, the SCM profile and so forth, your Honor, you have done -- you have said exactly what we want in this case, that's the way it will move along.

We think that when Xerox is required to come in and say what it is they want to prove through all of these documents and these interrogatories comparing it againstwhat they have already, we think that your Honor is going to see that if they prove it all, it's not going to make any difference, but if we are wrong, then they will have their discovery, what we call in the brief discovery --

THE COURT: They already told me, in effect, what they want to prove, they want to prove as to market is not plain paper copiers, but it's many other reproducing processes.

MR. KAYE: If they say in their own 1972 plan that coated paper is a fringe area and offset is a fringe area, what do they want from SCM or A. B. Dick or whatever else to overcome that? Against legal principle, and your Honor has seen then, in the Colby case, Section 2 monopoly, extraordinarily similar in terms of this case, because they acquired 70 patents, nobody else was a manufacture of the hydraulic pump for the oil wells in 14 years, a new fellow tried to come in, they started a patent suit, just the same as Xerox and IBM, and

the president of the company got up and said: we have all the technology for patented and unpatented for hydraulic wells, there were many other kinds of pumps, I said hydraulic wells, there were many other kindsof pumps for oil wells, there was a sucker pump, a lift pump and so forth --

THE COURT: You are talking about adjudication at the end.

MR. KAYE: I'm talking about whether at this point in time they can show that if they go out for discovery that they are going to find anything -- it's going to lead to admissible evidence, and that means whether it's material and that means that you got to look -- you have to look at the issues, look at what are the legal principles relating to market definition, how -- how is Xerox -- I ask Xerox to stand today and say how in this 64 company discovery that they are going to establish against their own statements in these papers that plain paper office copiers are not the same as first run films as against second run films, comparing plain paper copiers to the coated paper copiers, how it's not the cream of the business as in the international boxing case with championship boxing matches against nonchampionship boxing.

What is all this discovery going to accomplish? What I'm saying, your Honor, is that we are -- we have

already -- we are about to witness in the Federal Trade Commission, a situation where a company has become so big and so massive that in my humble opinion the adjudicatory processes of the Federal Trade Commission are such that Xerox is bigger than the Federal Trade Commission and the U. S. is represented because there is not goingto be adjudication that is going to mean anything in our -- in the reasonably foreseeable parts of our lifetime or thelifetime of our respective clients, and the question here is, is whether or not is Xerox is bigger than the judicial system, Section 1 and 2 of the Sherman Act and Section 7 of the Clayton Act say there shall be certain unlawful matters. We have federal rules. Are those -- Xerox says those federal rules are constitutional, it's a question of due process. I say before we -- along the line of the English Master system, before we get into discovery, that we delineate issues so we have to see whatit is that Xerox is going to try to prove on this question of market, what it is they are going to try to prove on the question of capability, the new one that they have raised, otherwise, if we take the position that Mr. Robinson says that -- let us disregard the mountains of evidence in the Xerox office and go out as if we are Columbus traveling the western sea never explored before, then we are ten years ahead, I am saying --

THE COURT: He doesn't say it's unexplored. He said

it's very well explored and he is just a defendant in a lawsuit that wants to present his side of the case. He doesn't make any claims thatit's unexplored.

MR. KAYE: But he says he wants to be able to go out -- doesn't he want to talk about his documents? Don't go near them.

THE COURT: I don't think it's quite that. I am sure he expects that he will be confronted with his documents even as he confronts you with yours.

MR. KAYE: Your Honor, on this -- this is aside, Mr. Robinson talks about the petition for certiorari in that case, joining coated electrostatic paper together with plain paper coated paper. Well, if Mr. Robinson and Xerox is prepared to try the case on that market definition, I believe I am.

THE COURT: That's the point. Of course, they are not willing to just say: well, you take the one piece of paper you found in our file and we will take the one we found in your cert. petition, and we will go to a jury on it or we will go to a Court on the legal issue. They are not saying that at all. They are saying it's a difficult issue, and you may well be right, but there ought to be the normal trial process and pretrial process before that issue is decided.

MR. KAYE: I say if it's the normal process in the

sense that we are -- we don't get to issues and we -- I read --

THE COURT: I understand your claim.

What else today needs to be presented so that we know when we come back at 2:00 what's left?

MR. KAYE: Your Honor, the two motions that are left are the motions under Rule 34, which Mr. Gotkin will get to, and the motion on confidentiality, which Mr. Rauchberg -- and I don't know who from Xerox will handle --

THE COURT: I have a matter at 2:00 upstairs, but that will take five minuts. So we will convene just about 2:00, and what I will simply do is just divide the time between then and 3:00 foreach side to deal with the remaining issues.

MR. KAYE: I take it that we are submitted under Rule 42 motion and the motion for preliminary injunction, at least, is setting the --

THE COURT: Yes.

MR. KAYE: Are we finished on that motion?

MR. ROBINSON: I have nothing further to say under the Rule 42B motion.

THE COURT: We will be in recess until 2 o'clock.

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E 357

RULING ON PLAINTIFF'S MOTION TO COMPEL DISCOVERY

FILED
JAN 8 3 57 PM '74
U.S. DISTRICT COURT
NEW HAVEN, CONN.

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

SCM CORPORATION :

V. : CIVIL NO. 15,807

XEROX CORPORATION :

RULING ON PLAINTIFF'S
MOTION TO COMPEL DISCOVERY

This is a motion by SCM, pursuant to Fed. R. Civ. P. 37, to compel Xerox to respond to SCM's discovery requests for documents and interrogatories in a complex private anti-trust suit. At issue is only the timetable for Xerox's compliance, the parties having resolved in early December, 1973, all disputes concerning substantive objections to the discovery requests. (See letter from Gerald Sobel, Esq. to Ronald Rauchberg, Esq. dated December 3, 1973, attached as Exhibit A to affidavit of Gerald Sobel in opposition to the pending motion.)

SCM wants Xerox to respond by December 15, 1973, to the extent that the SCM requests were not objected to by Xerox, and by January 15, 1974, to all requests as modified by the parties' agreement. Xerox counters with a timetable

based on the parties' agreement to limit the scope of the search Xerox must undertake to comply with SCM's document requests. Xerox suggests a "substantial" response to document requests and interrogatories by February 15, 1974, and a complete response by May 15, 1974, on the understanding that interrogatories would be answered according to this schedule only to the extent the information necessary to prepare answers is located in the files to which the document search has been limited. Xerox contends that it needs until May 15, 1974, even to estimate the time required to answer the interrogatories fully, without the limitation as to source of answering material.

It would serve no useful purpose to detail the understandably divergent views the parties express as to the burden of compliance. The competing claims present no legal issues warranting discussion. Xerox has been on notice of what SCM is seeking since July 31, 1973, when the discovery requests were served. Intervening events, however, have afforded some justification for delay. These have included Xerox's successful motion to have the original SCM complaint dismissed, with replacement by an amended complaint filed November 5, 1973, and the parties' commendable effort to resolve, by mutual concessions, the Xerox objections to the

scope of many of the SCM requests, an effort that was concluded only in early December, 1973. Despite some limitation in the scope of what was originally sought, the SCM requests are extensive, going far beyond the traditional "first wave" of discovery that seeks names and addresses about witnesses, existence and location of documents, and information about challenged transactions. See Manual for Complex and Multidistrict Litigation ¶ 1.5. Many of the SCM requests are "second wave" discovery on the merits. The Court has reviewed all of the materials submitted, and is obliged to select an appropriate timetable.

Accordingly, it is hereby ORDERED that by April 1, 1974, Xerox shall produce all documents sought by SCM pursuant to SCM's document request as modified by agreement of the parties to the extent such documents exist in the files and locations agreed to by the parties as being the limit of Xerox's obligation to search, and by April 1, 1974, Xerox shall respond to SCM's interrogatories as modified by agreement of the parties to the extent responses to such interrogatories can be furnished (a) by the personnel whose files have been agreed to by the parties as being the limit of Xerox's obligation to search or (b) from the files and locations agreed to by the parties as being the limit of

Xerox's obligation to search; by June 15, 1974, Xerox shall respond fully to SCM's interrogatories as modified by agreement of the parties, except as to any interrogatory or portion thereof as to which Xerox has submitted to the Court by April 1, 1974, a detailed explanation of why a complete response cannot be furnished by June 15, 1974, in which event the Court will enter a further order maintaining or extending the compliance deadline as to each interrogatory or portion thereof as to which Xerox seeks additional time; Xerox shall endeavor in good faith to furnish SCM with documents and interrogatory responses continuously as they become available.

Dated at New Haven, Connecticut, this 8 day of January, 1974.

Jon O. Newman
United States District Judge

E 361

DECISION ON CROSS MOTIONS FOR A PROTECTIVE ORDER

FILED
JAN 3 3 57 PM '72
U.S. DISTRICT COURT
NEW HAVEN, CONN.

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

SCM CORPORATION :

V. :

XEROX CORPORATION :

CIVIL NO. 15,807

MEMORANDUM OF DECISION
ON CROSS MOTIONS FOR A PROTECTIVE ORDER

In this private treble damage antitrust suit, the parties have submitted different forms of a proposed protective order. Fed. R. Civ. P. 26(c). Despite conscientious efforts by the parties to resolve their differences, several points remain in dispute. The parties' contentions and this Court's consideration of them assume a request by plaintiff SCM for information from defendant Xerox, but both sides recognize, and this Court's order will reflect, that the issues raised and their resolution apply to discovery requests originating with either party.

1. Definition of confidentiality. The SCM proposal adopts as a definition of "confidential" the phrase contained in Rule 26(c)(7): "trade secrets or other confidential research, development, or commercial information." The Xerox

proposal omits this standard, but does specify three categories of confidential information, with differing degrees of protection accorded to each. While the SCM proposal somewhat begs the question of what will ultimately be determined to be "confidential research, development, or commercial information," the inclusion of this standard is surely appropriate and at least makes clear that the protective order is to be interpreted against the background of the case law that has developed under Rule 26(c).

2. Procedure for designating and challenging a designation of information as "confidential." SCM wants Xerox counsel to read each document produced and personally certify the confidential status of any document so designated. Xerox responds that such procedure will be extremely time-consuming with consequent delay to the discovery stage that SCM is anxious to expedite. SCM is concerned that corporate, rather than attorney, designation of confidentiality will result in excessive classification with an improper shifting of the burden to the receiving party to challenge the legitimacy of the designation.

It does appear, as Xerox concedes, that the "confidential" stamp has been wielded by its corporate personnel to an extent that would make even Pentagon classifiers blush.

But substituting a law firm for a corporation is not necessarily a cure for this institutional syndrome. In any event, even under the Xerox approach, Xerox attorneys will have to make a judgment as to any document that SCM attorneys call to their attention as being inappropriately classified. The procedural issue really concerns who must bring to court any dispute as to classification. Xerox wants SCM to claim relief from classification; SCM wants Xerox to claim entitlement to classification. (Xerox seems to acknowledge that, regardless of which party brings the dispute to court, the burden will be upon the party claiming confidentiality to establish its claim.) It seems appropriate to proceed, at least initially, with Xerox's approach. The order to be entered will permit Xerox to determine which personnel make the initial decision as to classification. Any information that SCM counsel believe has been inappropriately classified will be called to the attention of Xerox counsel. As to any information that Xerox counsel thereafter insists is entitled to classification, SCM will be entitled to bring the dispute to court, at which time the burden will be upon Xerox to establish the legitimacy of the classification. It is the Court's expectation that counsel will cooperate to reduce to a bare minimum the disputes of this nature that require court

resolution. It will be helpful if Xerox will begin the cooperative process by voluntarily declassifying, as time permits, those categories of documents already furnished as to which the "confidential" label appears to have been misapplied. The extent to which either party precipitates what the Court later determines to be unwarranted requests for judicial resolution will, if such should occur, cause reconsideration and revision of these procedures.

3. Opportunity to challenge independent status of expert witnesses to be shown confidential information. The SCM proposal permits disclosure of confidential information to experts retained by counsel. Xerox provides a definition of experts qualified to receive confidential information, designed to assure their independent status. Moreover, Xerox seeks advance notification of the identity of experts to whom the receiving party intends to submit confidential information, with the opportunity to precipitate a court challenge in the event the expert is deemed not to be independent. Xerox prefers not to rely solely on the imposition of sanctions for violations of a protective order discovered after the fact.

The propriety of advance disclosure of experts in this context has been recognized. Spartanics Limited v. Dynetics Engineering Corp., 54 F.R.D. 524 (D. Ill. 1972);

United States v. National Steel Corp., 26 F.R.D. 603 (S.D. Tex. 1960); Louis Weinberg Associates, Inc. v. Monte Christi Corp., 11 F.R.D. 514 (S.D. N.Y. 1951). SCM would distinguish National Steel and Monte Christi on the ground that they involved site visits to the plant of the party supplying information, with the inevitable disclosure of the expert's identity. This alleged distinction misses Xerox's point. It is not seeking the expert's identity to satisfy its curiosity; it wants an opportunity to challenge the independent status of an expert prior to any disclosure. That was the opportunity afforded in the cited cases. The Xerox proposal places the burden of bringing to court any dispute in this regard upon the party challenging the independence of the receiving party's proposed expert. The Xerox requirement and its implementing procedure will be adopted.

4. Disclosure to officials of the client and in-house counsel. The SCM proposal permits disclosure of confidential information to in-house counsel and officers, directors, and employees of the client with whom counsel in good faith believes it is necessary to confer on matter related to this action. The Xerox proposal makes no provision for disclosure of confidential information to personnel of the client, and prohibits disclosure to in-house counsel of

the category designated "R & D," which embodies or refers to technology, and which Xerox regards as especially sensitive.

The parties' dispute on this issue reflects a difference of opinion as to who should bear the burden of bringing to court specific controversies concerning the extent of disclosure. SCM would place this burden upon the party claiming that a particular document should not be disclosed to personnel of the client or in-house counsel. Xerox would place this burden upon the party claiming that it needs to disclose a particular document to personnel of the client or in-house counsel. (In either event, the party claiming limitation of disclosure will have to establish its claim.) As with the similar contentions respecting challenges to the initial classification of information, this Court will initially adopt the Xerox approach in the expectation that both parties will cooperate to minimize the need for judicial intervention, with the procedure to be revised depending on the extent of and responsibility for that expectation not being realized. Specifically, this Court, by rejecting the SCM procedure at this time, is not ruling that personnel of the client are not entitled to see any of the information to be designated as confidential. While that may be the initial result of the protective order to be entered, the Court

expects counsel for the supplying party to assess realistically the legitimate trial preparation needs of opposing counsel and consent to disclosures beyond the scope of the protective order except as to information as to which broader disclosure poses a genuine threat to the supplying party's technical and commercial integrity.

Accordingly, a protective order will be entered adopting substantially the provisions of the Xerox proposal, with the addition of a definitional phrase regarding confidential information and some minor and apparently non-controversial additions suggested in Xerox's memorandum.

Dated at New Haven, Connecticut, this 8 day of January, 1974.

Jon O. Newman
United States District Judge

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DEFENDANT'S MEMORANDUM WITH RESPECT TO LEGAL SUFFICIENCY OF PLAINTIFF'S REQUEST FOR PRELIMINARY INJUNCTION

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,	:	
Plaintiff,	:	
-against-	:	Civ. No. 15807
XEROX CORPORATION,	:	
Defendant.	:	

DEFENDANT'S MEMORANDUM WITH RESPECT TO LEGAL SUFFICIENCY OF PLAINTIFF'S REQUEST FOR PRELIMINARY INJUNCTION

INTRODUCTORY STATEMENT

Xerox Corporation ("Xerox") submits this memorandum pursuant to the Court's direction at page 9 of its Memorandum of Decision dated January 3, 1974. As we shall demonstrate, plaintiff's ("SCM's") request for a preliminary injunction should be denied as a matter of law for two separate reasons. First, the type of relief requested in the amended complaint ("the complaint") may not properly be granted pendente lite; and second, it is evident that the preliminary relief sought by SCM is not necessary to prevent immediate irreparable injury, as Section 16 of the Clayton Act requires.

Paragraphs 49-53 of the complaint set forth the relief which SCM seeks in a preliminary injunction. In essence, such relief falls into three categories:

Defendant's Memorandum with Respect to Legal Sufficiency of Plaintiff's Request for Preliminary Injunction

1. Freedom from Assertion of Xerox' Patent Rights

Taken together, paragraphs 49-51 of the complaint request the Court to provide SCM with the right to manufacture and market plain paper copiers during the pendency of this action free from any assertion by Xerox of its patent rights. Thus, paragraph 51 seeks a mandatory preliminary injunction ordering Xerox "to grant SCM a license with respect to all the United States and foreign patents and patent applications it owns or controls."* Paragraph 49 seeks the identical relief in prohibitory form, requesting a preliminary injunction restraining Xerox from "threatening, instituting or maintaining any patent infringement action or claim against SCM with respect to SCM's present and future efforts to develop and market plain paper office copiers." And paragraph 50 seeks a similar prohibitory injunction against "threatening, instituting or maintaining any other action or claim here or abroad which might impede SCM's present and future efforts with respect to plain paper office copiers, or which might delay the final adjudication of this First Claim." Although the complaint does not spell out precisely what "other actions" SCM has in mind, this request presumably refers to patent infringement actions by

*Since the complaint is directed exclusively to plain paper office copiers, this request for a license is presumably directed to patents related to such products. It goes without saying that licenses of patents involving products or processes unrelated to the subject matter of this action could in no way be granted, either preliminarily or after trial.

Xerox against SCM's plain paper copier customers or suppliers.

2. Disclosure of Xerox' Manufacturing and Marketing Plans

Paragraph 52 of the complaint seeks an order requiring Xerox, "during the pendency of this action, . . . to disclose [presumably to SCM] its present short and long range plans for the manufacture and marketing of plain paper office copiers."

3. Abrogation of Employee Covenants Not To Compete

Paragraph 53 of the complaint seeks a preliminary injunction prohibiting Xerox from enforcing or attempting to enforce agreements with certain personnel not to engage in xerographic activities for other companies following termination of their employment with Xerox. Xerox has formally abandoned all such agreements, none of which is presently in force. Accordingly, this request is moot and need not be further discussed.

None of this relief is available to SCM pendente lite because, rather than preserving or restoring the status quo between the parties, it would confer upon SCM a new status which it has never previously enjoyed. As we demonstrate in Point I, infra, that is not the proper function of a preliminary injunction.

Separate and apart from the manifest impropriety of the requested relief prior to trial, SCM's demand is legally insufficient because it is demonstrable that SCM

will not suffer immediate and irreparable injury if the relief is not granted. As we show in Point II, infra, it is indisputable that SCM has no need whatsoever for the relief it seeks, and that it will suffer no injury at all, much less the immediate irreparable injury the law requires, if a preliminary injunction is denied.

In light of the two-pronged legal insufficiency of SCM's request, the Court need never reach the issue of whether SCM can establish a substantial likelihood of ultimate success on the merits of its antitrust claim. Since the requested relief could in no event be granted, there is no reason to hold an unnecessary hearing,* and SCM's motion for a preliminary injunction should be denied.

ARGUMENT

I.

SCM MAY NOT OBTAIN THE PRELIMINARY RELIEF IT SEEKS BECAUSE SUCH RELIEF WOULD NEITHER PRESERVE NOR RESTORE THE STATUS QUO BUT WOULD CONFER UPON SCM A STATUS NEVER PREVIOUSLY ENJOYED

Each of SCM's requests for preliminary injunctive relief seeks to confer upon SCM a status it has never

*The complaint charges that Xerox has monopolized the world-wide skill and technology, manufacture and marketing of plain paper office copiers. Given the extraordinary breadth of such a charge, the factual and legal issues to be determined are gargantuan; and the Court could not conceivably make an informed determination as to the likelihood of SCM's ultimate success on the merits on anything short of a full trial of all the relevant facts -- a proceeding not within the realm of practical possibility at a preliminary injunction hearing.

previously enjoyed. The drastic remedy of a preliminary injunction -- which operates to curtail a party's conduct prior to a full adjudication of any wrongdoing -- is not available for such a purpose and may be utilized only to preserve the status quo as of the time of suit or to restore conditions to their status prior to any dispute between the parties.

A. The Proper Function Of A Preliminary Injunction Is To Preserve Or Restore The Status Quo

No doctrine is more firmly rooted in equity jurisprudence than the principle that the function of a preliminary injunction is to preserve the status quo between the parties to a litigation during the pendency of suit to avoid a change which would irreparably injure a party prior to final adjudication. As Moore states:

> "The general purpose of a preliminary injunction is to preserve the status quo pending final determination of the action after a full hearing." 7 J. Moore, Federal Practice ¶ 65.04[1] at p. 65-36 (2d Ed. 1973).

In this Circuit, the classic formulation of the applicable principle is Judge Frank's statement in Hamilton Watch Co. v. Benrus Watch Co., 206 F.2d 738, 742 (2d Cir. 1953):

> "[A preliminary injunction] serves as an equitable policing measure to prevent the parties from harming one another during the litigation; to keep the parties, while the suit goes on, as far as possible in the respective positions they occupied when the suit began." (Emphasis supplied).

Accord, e.g., United States v. Adler's Creamery, Inc., 107 F.2d 987, 990 (2d Cir. 1939) ("Its ordinary function is to preserve the status quo . . . ."); American Mercury, Inc. v. Kiely, 19 F.2d 295, 297 (2d Cir. 1927) ("Such provisional or preventive remedy is given to preserve the status quo . . . ."); Toledo, A. A. & N. M. Ry. v. Pennsylvania Co., 54 F. 730, 741 (N.D. Ohio 1893) ("The office of a preliminary injunction is to preserve the status quo until, upon final hearing, the court may grant full relief." (Taft, J.)); Warner Bros. Pictures, Inc. v. Gittone, 110 F.2d 292, 293 (3d Cir. 1940) (". . . the office of a preliminary injunction [is] . . . to preserve pendente lite the last actual noncontested status which preceded the pending controversy."); Willheim v. Investors Diversified Services, Inc., 303 F.2d 276, 277 (2d Cir. 1962) ("A preliminary injunction should be directed toward preserving the status quo, so far as possible, in order that ultimate adjudication may come on a complete record after a full trial . . . ."); Clune v. Publishers' Ass'n of New York City, 214 F. Supp. 520, 531 (S.D.N.Y. 1963), aff'd per curiam, 314 F.2d 343 (2d Cir. 1963) ("It is elementary that a preliminary injunction is designed to preserve the subject in controversy in its then existing condition."); Checker Motors Corp. v. Chrysler Corp., 405 F.2d 319, 323 (2d Cir. 1969), cert. denied, 349 U.S. 999 (1969) ("The purpose of a preliminary injunction is to maintain the status quo pending a final determination of the merits."); Westinghouse Electric Corp. v. Free Sewing Machine Co.,

256 F.2d 806, 808 (7th Cir. 1958) (". . . a preliminary injunction is a provisional remedy designed to preserve the status quo until the case can be heard upon the merits."); Washington Capitols Basketball Club, Inc. v. Barry, 419 F.2d 472, 476 (9th Cir. 1969) ("The function of a preliminary injunction is to maintain the status quo ante litem pending a determination of the action on the merits."); Exhibitors Poster Exchange, Inc. v. National Screen Service Corp., 441 F.2d 560, 561 (5th Cir. 1971) ("The purpose of a preliminary injunction is to preserve the status quo and thus prevent irreparable harm until the respective rights of the parties can be ascertained during a trial on the merits."); American Radio Ass'n v. Mobile Steamship Ass'n, Inc., 483 F.2d 1, 4 (5th Cir. 1973) ("A preliminary injunction's function is simply to preserve the status quo until the merits can be adjudicated."); Note, 73 Harv. L. Rev. 333, 335 (1959) ("The purpose of . . . interlocutory injunctions is considered to be the preservation of the status quo pending further court action.").

The status quo, in this context, means "the last uncontested status which preceded the pending controversy." Westinghouse Electric Corp. v. Free Sewing Machine Co., 256 F.2d 806, 808 (7th Cir. 1958).* Preliminary injunctions may thus

*Accord, Washington Capitols Basketball Club, Inc. v. Barry, 419 F.2d 472, 476 (9th Cir. 1969); District 50, United Mine Workers of America v. International Union, U.M.W., 412 F.2d 165, 168 (D.C. Cir. 1969); Tanner Motor Livery, Ltd. v. Avis, Inc., 316 F.2d 804, 809 (9th Cir. 1963), cert. denied, 375 U.S. 821 (1963); Warner Bros. Pictures, Inc. v. Gittone, 110 F.2d 292, 293 (3d Cir. 1940).

be granted in two categories of cases: either (1) to preserve the parties' status as of the time suit is instituted, or (2) to restore a prior status which existed before the controversy between the parties arose.

The issuance of a preliminary injunction to preserve the existing status quo by keeping the parties precisely where they were when suit was commenced is typically illustrated by the interlocutory prohibition of the consummation of a corporate acquisition alleged to be unlawful or of the use of already acquired stock (see, e.g., Hamilton Watch Co. v. Benrus Watch Co., 206 F.2d 738 (2d Cir. 1953)). Similarly, in Washington Capitols Basketball Club, Inc. v. Barry, 419 F.2d 472 (9th Cir. 1969), a basketball player under contract to the plaintiff was enjoined from playing for another team pendente lite, thus preserving the status quo as of the time of suit.

In some cases the relative positions of the parties at the time the litigation was commenced has changed from a prior status as a result of challenged conduct, so that the preservation of the parties' "last uncontested status" requires restoration of the initial status quo. Interphoto Corp. v. Minolta Corp., 417 F.2d 621 (2d Cir. 1969), is illustrative. Plaintiff, a former Minolta distributor, alleged that it had been unlawfully terminated, and the court issued a preliminary injunction restoring the distributorship pending ultimate determination of the controversy. Similarly,

in Columbia Broadcasting System, Inc. v. American Society of Composers, Authors and Publishers, 320 F. Supp. 389 (S.D.N.Y. 1970), CBS, which previously had a royalty-bearing license to broadcast defendant's copyrighted music, continued to do so without payment of royalties after the expiration of the license. The court issued a preliminary injunction restoring the parties to their last uncontested status, which required the payment of royalties pending the outcome of the suit:

> "The proper remedy is to be measured by the office of a preliminary injunction itself; that is, to restore the parties to the status quo ante." (320 F. Supp. at 393).

Ross-Whitney Corp. v. Smith, Kline & French Laboratories, 207 F.2d 190 (9th Cir. 1953) is another example. There, the Ninth Circuit affirmed the issuance of a preliminary injunction barring the manufacture, advertising and sale of a recently introduced product alleged to be confusingly similar to defendant's, thus restoring conditions to their status prior to the commencement of the dispute. Similarly, in Danielson v. Local 275, Laborers International Union of North America, 479 F.2d 1033 (2d Cir. 1973), the Court of Appeals ordered the issuance of a preliminary injunction prohibiting the defendant union from engaging in certain unlawful picketing activities, thereby restoring the status quo to its condition before the controversy arose, i.e., before the picketing commenced.

In sum, a legion of cases have consistently held that the extraordinary remedy of a preliminary injunction is granted when necessary to preserve or restore the status quo, that is, the last uncontested status of the parties.

B. A Preliminary Injunction May Not Alter The Status Quo By Conferring Upon A Party A Status Never Previously Enjoyed.

The logical corollary of this time-honored principle is that a preliminary injunction may not issue if it would alter the status quo by placing either party in a position never before occupied. This equally settled principle is exemplified by the Third Circuit's oft-cited decision in Warner Bros. Pictures v. Gittone, 110 F.2d 292 (3d Cir. 1940). There, plaintiffs were motion picture exhibitors whose theaters had never been furnished with first run films by the defendant distributors. Plaintiffs alleged that the distributors' refusal to license them to show such films and their consequent exclusion from the first-run market violated the antitrust laws. The district court issued a preliminary injunction which, in effect, required the defendants to grant first-run licenses to plaintiffs.* In an opinion by a panel consisting of Judges Biggs, Maris and Clark, the Court of Appeals reversed. Noting that a preliminary injunction "must [be] . . . required to preserve the status

*Defendants were enjoined from granting first-run licenses to anyone unless such licenses were also offered to plaintiffs. Defendants thus were obliged to license their films to plaintiffs on a first-run basis if they wanted to remain in business.

quo pendente lite," the court went on to hold that the injunction could not stand precisely because it altered the prior status of the parties by affording plaintiffs a right to receive first-run pictures which they had never previously possessed:

> "[W]e are clear that the effect of the preliminary injunction which the court granted was not to preserve the status quo but rather to alter the prior status of the parties fundamentally. Such an alteration may be directed only after final hearing, the office of a preliminary injunction being, as we have pointed out, merely to preserve pendente lite the last actual noncontested status which preceded the pending controversy. [citing cases] Irreparable loss resulting from refusal to accord the plaintiff a new status, as distinguished from interference with rights previously enjoyed by him, does not furnish the basis for interlocutory relief." (110 F.2d at 293).

In other words, the court in Gittone ruled that, even if the plaintiff would be irreparably injured in the absence of an injunction,* preliminary relief according it a new status (i.e., a licensee of first-run pictures) could not be granted.

Gittone was followed by the Fourth Circuit on substantially similar facts in Meiselman v. Paramount Film Distr. Corp., 180 F.2d 94, 97 (4th Cir. 1950), which affirmed the district court's denial of a preliminary injunction

*As we demonstrate in Point II, infra, denial of the requested preliminary relief here cannot irreparably injure SCM -- an independently self-sufficient ground precluding the grant of such relief.

ordering defendant to supply plaintiff for the first time with first-run motion pictures. Accord, Tanner Motor Livery, Ltd. v. Avis, Inc., 316 F.2d 804, 808-09 (9th Cir. 1963), cert. denied, 375 U.S. 821 (1963) (preliminary injunction may not enjoin use of trademark licensed for fifteen continuous years because status quo would be altered).

Two very recent decisions reflect the current vitality of the applicable equitable principle. In Barbys Frosted Foods, Inc. v. McDonald's Corp., 1973-2 Trade Cas. ¶ 74,622 (D.N.J. 1973), plaintiff had been terminated as an approved supplier of fresh meat to the defendant's restaurants. It sought a preliminary injunction requiring defendant not only to restore plaintiff as a supplier of fresh meat, but also to approve it as a supplier of frozen meat, "a status . . . which plaintiff ha[d] never before held." (Id. at p. 94,747). In denying such preliminary relief, the court refused "to countenance a preliminary injunction the effect of which is to alter the status quo ante and place one party in a new position which it is seeking to make permanent through the litigation." (Id.). The court went on to quote from Gittone, and concluded:

> "Barbys is attempting, on this preliminary motion, to be permitted to attain a status which it has never before held. Consequently, as the Third Circuit has indicated, once it

> is determined that the relief requested is inappropriate subject matter for a preliminary injunction, even proof of irreparable harm will not provide a basis for relief." (Id. at p. 94,478).

Pitman-Moore, Inc. v. The Dow Chemical Co., Civ. No. 480-73 (D.N.J. July 13, 1973) (unreported),* is to the same effect. In that case plaintiffs alleged that they were entitled, under a contract with defendants, to the rights to manufacture and distribute six pharmaceutical products which defendants claimed they owned. The court denied a motion for a preliminary injunction ordering defendants to turn over to plaintiffs all rights to the products as well as specifications, studies, data and manufacturing know-how, in order to permit plaintiffs to commence their own development and marketing efforts. Among the reasons given for denying preliminary relief was the fact that the injunction, if issued, would confer upon the plaintiffs a status they had never previously enjoyed:

> "Even if this Court were to find that the elements of irreparable harm and probability of success existed in this case, I still would be required to deny the motion for a preliminary injunction because the requested relief would permit the plaintiffs to attain a status which it [sic] has never before held, that is: the owner of the six products which are the subject matter of this litigation . . . .
>
> * * *

*A copy of this unreported opinion is appended hereto as Appendix A.

Defendant's Memorandum with Respect to Legal Sufficiency of Plaintiff's Request for Preliminary Injunction

> . . . Johnson & Johnson and Pitman-Moore are attempting to alter the last uncontested status quo, i.e. the position of the parties before the contract was entered into, with respect to these six products. The granting of a preliminary injunction would place the plaintiffs in a preferred position, a position which they have never held before and which they seek to make permanent by this action. Under these circumstances, a preliminary injunction should not issue." (Letter opinion at 9, 10).

* * *

To recapitulate, the law is clear that a preliminary injunction's proper function is to preserve or restore the last uncontested status between the parties pending ultimate resolution of the controversy; and, conversely, it is improper to grant preliminary relief which would alter the status quo by conferring upon a party a status never previously enjoyed.*

*While there are dicta in a few isolated cases suggesting that, in extraordinary circumstances where exceptional irreparable harm is likely, preliminary relief might be ordered other than to preserve the status quo, not one of those cases actually issued such an injunction; either the injunction in fact preserved or restored the status quo, or the injunction was denied: Unicon Management Corp. v. Koppers Co., 366 F.2d 199, 204 (2d Cir. 1966) (injunction found to be "a reasonable and necessary means of preserving the position of the parties . . . . We find that the order does serve to maintain and preserve the status quo . . . ." Id. at 202, 204); Flood v. Kuhn, 309 F. Supp. 793, 799 (S.D.N.Y. 1970) (injunction denied); Lepore v. New York News Inc., 346 F. Supp. 755, 762 (S.D.N.Y. 1972) (enjoined refusal to deal with terminated distributor, thus restoring status quo prior to termination); Welton v. City of Lockport, 13 Misc.2d 341, 177 N.Y.S.2d 438 (Sup. Ct. 1958) (preserved status quo by requiring continuation of water service; "this is a proper remedy to preserve the status quo during the pendency of a suit . . . ." (13 Misc.2d at 343)).

C. SCM Seeks Preliminary Relief Which Would Alter The Status Quo By Conferring Upon It A Status Never Previously Enjoyed.

Applying established equitable doctrine, examination of the preliminary relief prayed for in the complaint compels the conclusion that the requested injunction may not be granted as a matter of law.

To begin with, the requested mandatory injunction (Complaint, ¶ 51) ordering that SCM be granted a license under all of Xerox' patents and patent applications would, if entered, drastically alter the relative status of the parties. Indeed, it is difficult to conceive of a more dramatic change in the status quo ante litem.

SCM does not have, and has never had, a license under Xerox' patents with respect to plain paper copiers. The fact is, as SCM alleges in paragraph 62 of the complaint, that it has been in the copying business at least since 1964 under a Xerox patent license expressly limited to coated paper copiers.* Now, after almost a decade, it invokes the Court's equitable jurisdiction to give it what it has never had -- a license under "more than 1600 unexpired United States patents, more than 200 pending United States patent applications and many thousands of foreign patents and patent applications" (Complaint, ¶ 27(h)(iii)). Nothing could fall more squarely within the principle that a preliminary injunction may not confer upon a party a new status

*This license has since been terminated by SCM. See Complaint, ¶ 63.

never previously enjoyed.

SCM is no more entitled to obtain a patent license pendente lite here than were the theatre owners entitled to first-run film licenses in Gittone and Meiselman, the meat supplier to a frozen-food supply contract in Barbys, or the pharmaceutical companies to product rights and know-how in Pitman-Moore. A plaintiff may not, under well-settled equitable principles, attain a new status -- be it licensee, food supplier or anything else -- through the instrument of a preliminary injunction prior to a full adjudication of rights after trial.

SCM's request for a prohibitory injunction (¶ 49) against the institution or threat of patent infringement suits merely seeks the identical relief in an alternative form, and hence suffers from the same legal defect. Since, as we have established, SCM may not be granted a patent license pendente lite because it would thereby attain an impermissible new status, by the same token it may not be granted the substantial equivalent of such a license. An injunction prohibiting Xerox from taking steps to assert its patent rights would be just that -- the equivalent of a license permitting SCM to infringe Xerox' patents without legal attack. The absence of any meaningful distinction in this regard between mandatory and prohibitory relief is demonstrated by Gittone and Meiselman, where the injunctions sought were prohibitory in form and nevertheless were held

improper as affording plaintiffs a new status.

With respect to the requested injunction prohibiting "any other action or claim" designed to impede SCM's manufacturing or marketing plans (¶ 50), such relief is legally impermissible a fortiori: If SCM itself cannot be afforded a hitherto nonexistent freedom from the assertion of Xerox' patent rights prior to final adjudication, its suppliers or customers -- who are not parties to this action -- plainly cannot.

SCM's request for disclosure of Xerox' short and long range plans (¶ 52) must fail for the same reason. Needless to say, SCM has never previously had access to such highly confidential data. To order disclosure at this time would drastically alter the status quo -- to Xerox' irreparable injury.

In short, each of the items of preliminary relief sought by SCM's complaint would alter the status quo by affording SCM a new status never previously enjoyed. The requested relief is therefore unavailable as a matter of law.

This would be true even if SCM could show that the injunction which it is seeking is necessary to avoid immediate irreparable harm. The indisputable fact is, however, that denial of the requested relief would result in no harm whatsoever to SCM -- an independent reason why preliminary injunctive relief must be denied, to which we now turn.

II.

SCM CANNOT OBTAIN THE PRELIMINARY RELIEF IT SEEKS BECAUSE OF THE INDISPUTABLE ABSENCE OF IMMEDIATE IRREPARABLE INJURY IF THE RELIEF IS NOT GRANTED

Section 16 of the Clayton Act, 15 U.S.C. § 26, expressly provides that a preliminary injunction in a private antitrust action may be issued only upon "a showing that the danger of irreparable loss or damage is immediate . . . ." (Emphasis supplied). This statutory prerequisite codifies a generally applicable equitable principle which the Second Circuit has denoted "the most significant condition which must be present to support the granting of a temporary injunction . . . ." Capital City Gas Co. v. Phillips Petroleum Co., 373 F.2d 128, 131 (2d Cir. 1967). Accord, e.g., Foundry Services, Inc. v. Beneflux Corp., 206 F.2d 214, 216 (2d Cir. 1953) ("It is well settled that, absent a showing of irreparable injury of some kind, no injunction pendente lite should be granted . . . ."). As the Second Circuit put it in American Mercury, Inc. v. Kiely, 19 F.2d 295, 297 (2d Cir. 1927): "Usually a temporary injunction contemplates relief where, without it, final relief would be of no avail to the complainant."

The circumstances of this case make it abundantly clear that SCM cannot conceivably suffer irreparable injury if the requested relief is not granted. To the contrary, it is indisputable that plaintiff does not need any of the

preliminary relief it seeks and will suffer no injury at all if it is denied.

Dealing first with the request for mandatory licensing of Xerox' patents and patent applications, such relief is totally unnecessary pendente lite. Xerox has already unequivocally represented both to SCM and to the Court in chambers that, should it choose to commence a patent infringement action against SCM, it will not seek a preliminary injunction to enjoin the infringement during the pendency of the suit. It follows that SCM is as free today to manufacture and market plain paper copiers pendente lite without fear of judicial restraint predicated on Xerox' patents as it would be if it were the recipient of a license pursuant to a preliminary injunction.

In view of Xerox' undertaking not to seek a preliminary injunction against SCM's patent infringement and SCM's concomitant freedom to enter the field without restraint, a mandatory licensing injunction is totally unnecessary. Whether or not SCM receives a license pendente lite, its position at the termination of this action will be precisely the same.

Given SCM's entry into plain paper copier marketing, there are four possible outcomes -- depending on whether or not preliminary relief is granted and whether the plaintiff or defendant prevails on the merits after trial:

1. A preliminary injunction mandating the issuance of a patent license is denied, and SCM ultimately prevails.

Where the Court denies the requested injunction and SCM has entered the plain paper copier field without a license but later proves the allegations of its complaint after a trial on the merits, SCM would be entitled to permanent injunctive relief (and Xerox' patents would be rendered unenforceable). In such circumstances, SCM will have suffered no harm at all by reason of the lack of a license in the interim since the patent did not exclude it from the market.

2. A preliminary injunction mandating the issuance of a patent license is denied, and Xerox ultimately prevails. If preliminary relief is denied and Xerox ultimately prevails on the merits, SCM would be liable for its infringement during the pendency of the action.

3. A preliminary injunction mandating the issuance of a patent license is granted, and SCM ultimately prevails. If the Court requires the issuance of a license pendente lite -- so that SCM's entry would be as a licensee -- ultimate success by SCM would mean that SCM has no liability, and the Court would enter an appropriate permanent injunction.

4. A preliminary injunction mandating the issuance of a patent license is granted, and Xerox ultimately prevails. If the Court grants a preliminary injunction

and Xerox prevails on the merits,* SCM would be liable under the injunction bond that is expressly required by Section 16.** SCM's liability on the bond for damages arising out of the improvident grant of a preliminary injunction would presumably be the equivalent of the damages to which Xerox would be entitled as the result of the unlicensed infringement in the case where the preliminary injunction has been denied.

In other words, whether or not SCM receives a preliminary injunction mandating the issuance of a patent license pendente lite is of no consequence to SCM. If SCM wins this case, it will be in precisely the same place with or without an injunction because it will have entered the plain paper copier field without restraint and will have incurred no liability. If SCM loses on the merits, it will

*Of course, the grant of a preliminary injunction does not mean that the defendant will not ultimately prevail. As the Second Circuit stated in Imperial Chemical Indust., Ltd. v. National Distillers and Chemical Corp., 354 F.2d 459, 463 (2d Cir. 1965): "[I]t should be understood that the findings of fact made upon the motion for preliminary injunction are not controlling, and the parties will be free to retry the issues at the hearing on the permanent injunction which will follow." What is more, in light of Xerox' right to a jury trial on all issues relevant to SCM's damage claim, any findings made by the Court at a preliminary injunction hearing could not be binding at the trial on the merits, and, indeed, all of the evidence introduced at the preliminary hearing would have to be repeated before the jury. See Boise Cascade International, Inc. v. Northern Minnesota Pulpwood Producers Ass'n, 294 F. Supp. 1015 (D. Minn. 1968); 7 J. Moore, Federal Practice ¶ 65.04[6] at p. 65-71 (2d Ed. 1973). Far from expediting matters, a hearing on SCM's motion would thus have just the opposite effect.

**". . . upon the execution of proper bond against damages for an injunction improvidently granted and a showing that the danger of irreparable loss or damage is immediate, a preliminary injunction may issue." 15 U.S.C. § 26.

owe Xerox the same damages either for infringement (if there was no injunction) or under the bond (if the injunction had been granted). It is thus plain that, license or no license, SCM remains free to compete during the pendency of the antitrust litigation. Denial of a mandatory licensing injunction cannot injure SCM at all, and its claim of irreparable injury simply evaporates into thin air.

We need not, however, rely solely on the inexorability of the foregoing logic. The absence of any need on SCM's part for a patent license pendente lite is conclusively demonstrated by the fact that it has recently announced its intention to market in the United States a plain paper copier manufactured by Van Dyk Research Corporation. (The text of SCM's announcement as reported in The Wall Street Journal on December 5, 1973, p. 12, is appended hereto as Appendix B.) What is more, SCM has made it clear that its arrangement with Van Dyk in no way alters its own development work on another plain paper copier which it anticipates will be marketed in 1975. Echoing the press release, this is what SCM's counsel stated to the Court at the December 7, 1973 hearing on SCM's motion for a severance of issues:

> "Now, earlier this week SCM announced that it is now in the plain paper office copier business, when we were here last, as alleged in the complaint, SCM is working to develop its own plain paper office copier, and I

> don't know that it's in the complaint, but it's certainly common knowledge, it's been in press releases, it was anticipated and it's still anticipated that that will not come to the market until 1975.
>
> Earlier this week SCM entered into an agreement with Van Dyck Research Corporation, which does manufacture, a very small company -- does manufacture plain paper office copiers and SCM expects to be marketing plain paper office copiers by January. The transaction, if the -- over a two-year period, if it's fulfilled to its outer limits, will involve something like $45 million worth of purchases by SCM from Van Dyck of plain paper office copiers, and the marketing of those so that SCM now is in two positions with respect to plain paper office copier, actual competitor or about to be an actual competitor, and also a potential competitor with other design machines in 1975."

In other words, SCM is now proceeding on two fronts, Xerox' alleged monopolization to the contrary notwithstanding. Having already crossed the bridge, SCM can hardly complain that it needs preliminary injunctive relief to transport it across the water.

As for the request for an injunction forbidding patent infringement actions, insofar as SCM is concerned this is no more than the prohibitory obverse of the requested mandatory license, and all of the reasons set forth above why SCM has absolutely no need for such interim relief are equally applicable.

With respect to the requested prohibition of infringement suits against others, this prayer presumably

applies to SCM's customers and suppliers.

As to customers, Xerox has never commenced an infringement action against an end user of any competitive machine covered by a Xerox patent, and represents that it will notdo so here. Accordingly, such relief is totally unnecessary.*

As to suppliers, the same considerations set forth above with respect to SCM itself apply with equal force to its suppliers. Xerox represents that it will not seek a preliminary injunction against any SCM supplier in any infringement suit; thus, such suppliers cannot be prevented by Xerox from infringing entry into the manufacture of plain paper copiers. Once again, therefore, there is no need for the requested injunction.

Finally, we come to SCM's demand for access pendente lite to Xerox' future manufacturing and marketing plans. Any claim of irreparable injury on this score is totally ephemeral. To begin with, this prayer for preliminary relief is an obvious afterthought, since it was not sought in SCM's original complaint. More fundamentally, SCM has neither a present need for, nor any ultimate right to, such relief -- even if it could establish every element of its antitrust claim. There is no logical nexus between SCM's alleged unlawful exclusion from the manufacture and marketing of plain paper copiers and its desire

*As Professor Moore has noted, "irreparable injury is not shown when there is no showing that defendant is attempting to do, or intends to do what the plaintiff seeks to have enjoined." 7 J. Moore, Federal Practice ¶ 65.04[1] at p. 65-42 n.7c (2d Ed. 1973).

to have access to its competitor's confidential plans. It is simply incredible for SCM to assert that it cannot compete without access to Xerox' plans when Litton, IBM, 3M, Van Dyk, Remington Rand, Reprox, the Japanese companies and SCM itself are now marketing plain paper copiers without them.

Moreover, disclosure of Xerox' confidential plans to SCM would be inherently anticompetitive. As the court noted in American Crystal Sugar Co. v. Cuban-American Sugar Co., 152 F. Supp. 387, 394 (S.D.N.Y. 1957), aff'd, 259 F.2d 524 (2d Cir. 1958), in enjoining an acquiring company's use of its voting stock to obtain representation on a competitor's board of directors: "Any such representation would give the nominee of defendant an opportunity to be thoroughly acquainted with the business and plans of the plaintiff company and thereby to limit the effectiveness of the competition between them."

In addition, to provide SCM with Xerox' plans pendente lite inevitably would mean permanent disclosure. Once those secrets have been disclosed, the element of secrecy has been destroyed forever, and no injunction bond could restore what Xerox would have lost irretrievably.

The short of the matter is that by seeking access to Xerox' plans, SCM is asking this Court to confer upon it a totally improper and undue competitive advantage. SCM cannot possibly advance any legitimate injury, irreparable or otherwise, flowing from its inability to pry into Xerox' confidential plans.

The absence of irreparable injury is demonstrated

by another fact. As Judge Pollack noted in Heldman v. United States Lawn Tennis Ass'n, 354 F. Supp. 1241, 1249 (S.D.N.Y. 1973), "Irreparable injury, in part, is that which cannot be compensated by an award of money damages." Put another way, the equitable requirement of irreparable injury is but an aspect of the classic requirement that an equitable remedy cannot be afforded when there is an adequate remedy at law. See, e.g., Judge Chase's opinion in Foundry Services, Inc. v. Beneflux Corp., 206 F.2d 214, 216 (2d Cir. 1953), where the Court of Appeals held:

> ". . . since any loss so caused could, if a wrong, be adequately redressed by money damages ascertainable upon proof, it does not constitute the irreparable injury necessary to justify an injunction pendente lite."

See also, Shelley v. The Maccabees, 183 F. Supp. 681, 684 (E.D.N.Y. 1960) ("It is well settled that a preliminary injunction will not be granted . . . where compensatory damages are complete and adequate.").

Taking SCM's plea of irreparable injury at face value, and assuming (contrary to already established fact) that SCM could not market plain paper copiers if the requested preliminary injunction did not issue, whatever injury it might suffer from continued exclusion from the field could be compensated in money. SCM's own complaint alleges that Xerox has excluded it and others from the field since 1961 (e.g., ¶ 15), and asserts that SCM's past injury therefrom amounts to at least $145 million (¶ 58). What is more, at the December 7, 1973 hearing, its counsel

elaborated at length on the methods by which the dollar value of such injury might be established. (Tr. pp. 44-46). The injury which SCM alleges it will suffer during the pendency of this action is identical to that which it claims it incurred prior to the filing of the complaint -- the profits it would have earned had it not been excluded by Xerox' allegedly unlawful acts. If SCM is able -- as it claims -- to establish its damages for the past, it follows that, by the time of trial, it will be just as able to establish them for the period during which this action has pended. Hence, its claimed injury cannot be irreparable in the sense required by the law.

The inherent inconsistency of SCM's position and the emptiness of its claim of irreparable injury is illustrated by O.M. Droney Beverage Co. v. Miller Brewing Co., 1973-2 Trade Cas. ¶ 74,797 (D. Minn. 1973). Judge Neville's language denying a preliminary injunction is squarely applicable here:

> "At the hearing the court suggested to plaintiffs' counsel that it would be inconsistent to argue at this moment that damages are irreparable and cannot be measured and therefore plaintiff needs an injunction, and later at a trial to attempt to prove damages. If damages are provable, it can hardly be said that they are not now capable of measurement and therefore irreparable in view of the fact that the defendant is a financially responsible corporation." (Id. at p. 95,560).

Hershel California Fruit Products Co. v. Hunt Foods, Inc.,

111 F. Supp. 732, 735 (N.D. Calif. 1953), appeal dismissed, 221 F.2d 797 (9th Cir. 1955), is to the same effect:

> "With respect to the question of alleged irreparable injury: The complaint demonstrates that the damages, if any, suffered by the plaintiffs are measurable and ascertainable in terms of money value. In fact, a schedule of such claimed damages is set forth in the pleadings.
>
> Under such circumstances the claim that the alleged injuries are irreparable, thus requiring the intervention of equity and the issuance of a preliminary injunction is without merit."

The availability of an adequate legal remedy in money damages should SCM ultimately prevail on the merits is thus a further reason why it is not entitled to preliminary relief here.

There is still another reason why irreparable injury is plainly absent. SCM is not a suitor who, upon being threatened with injury resulting from a claim of antitrust wrongdoing, rushes to invoke the aid of a court of equity. The complaint alleges that SCM was excluded from plain paper copier manufacture "no later than 1963" (¶ 24), and asserts (¶ 62) that in 1964 it received a coated paper copier patent license from Xerox expressly limited to coated paper products. Yet SCM saw fit to wait ten years before commencing suit. The court's holding in Veterans of Foreign Wars v. Durable Outfitters Inc., 88 F. Supp. 731, 732 (S.D.N.Y. 1949), is particularly apt:

> "It is difficult to show how irreparable injury would result to the plaintiff if an injunction pendente lite is not granted, particularly when it has waited almost twelve years before bringing the instant suit."

Accord, Lunkenheimer Co. v. Condec Corp., 268 F. Supp. 667, 672 (S.D.N.Y. 1967) (3 months delay); American Fabrics Co. v. Lace Art, Inc., 291 F. Supp. 589, 592 (S.D.N.Y. 1968) (7 months); Gianni Cereda Fabrics, Inc. v. Bazaar Fabrics, Inc., 335 F. Supp. 278, 280 (S.D.N.Y. 1971) (7 1/2 months); Klauber Bros., Inc. v. Lady Marlene Brassiere Corp., 285 F. Supp. 806, 808 (S.D.N.Y. 1968) (1 year); Helena Rubinstein, Inc. v. Frances Denney, Inc., 286 F. Supp. 132, 134 (S.D.N.Y. 1968) (2 years); Gillette Co. v. Ed Pinaud, Inc., 178 F. Supp. 618 (S.D.N.Y. 1959) (4 years); Ed. & John Burke, Ltd. v. Bishop, 144 F. 838, 839 (2d Cir. 1906) (10 years).

SCM will no doubt assert, as it did at the December 7 hearing, that preliminary relief is needed because, without it, Xerox' alleged monopoly will continue unchecked day by day and SCM's position will deteriorate. Insofar as a claim of deterioration of competitive position is concerned, it was answered by the Second Circuit in Sanders v. Air Line Pilots Ass'n, 473 F.2d 244, 248 (2d Cir. 1972):

> "The requirement that a party seeking a preliminary injunction demonstrate that it will suffer irreparable harm in the absence of preliminary relief necessitates more than a mere showing

> that the party seeking relief will see its relative position deteriorate."

Besides, SCM's claim cannot be taken seriously in light of the admitted fact that when it commenced this action, it had not even entered the alleged plain paper copier market and thus had no "market" share; whereas today it is now entering that claimed market with the Van Dyk machine, to be augmented shortly by equipment of SCM's own development.

The claim that preliminary relief is needed to check a continuing antitrust violation is equally specious. For one thing, it misconceives the purpose of a preliminary injunction, which is to preserve or restore the status quo in order to avoid irreparable injury certain to occur if relief is not forthcoming. Since, as we have shown, SCM has no need for the requested injunction (denial of which would in no way affect SCM's market position), the continuing nature of Xerox' alleged antitrust violation adds nothing. Furthermore, SCM's argument proves too much: A doctrine permitting issuance of a preliminary injunction every time it can be said that a defendant's claimed illegality will continue until checked would require interlocutory relief whenever a continuing violation of the antitrust laws is alleged. That is not the law.

At the December 7 hearing, SCM's counsel asserted (Tr. pp. 68-70) that, under Gulf & Western Industries, Inc. v. Great Atlantic & Pacific Tea Co., 476 F.2d 687 (2d Cir. 1973), a private party seeking a preliminary injunction in

an antitrust case need not establish irreparable injury because such a plaintiff necessarily assumes the garb of a private attorney general; in other words, that SCM's burden is no greater than that of the Department of Justice in an equitable action under Section 15 of the Clayton Act, 15 U.S.C. § 25. Gulf & Western holds no such thing. On the contrary, the Court of Appeals set forth the applicable standard for the grant of a preliminary injunction in language which could not be more explicit:

> "We repeatedly have held that the two-fold requirement for a preliminary injunction is a demonstration of probability of success on the merits and a showing that irreparable harm will result if such relief is denied." (476 F.2d at 692; emphasis supplied).

What is more, in affirming the issuance of a preliminary injunction prohibiting consummation of Gulf & Western's tender offer for A&P stock, the Second Circuit stressed the fact that the district court's ruling was premised squarely on the irreparable harm which A&P would suffer in the absence of preliminary relief:

> "The district court's opinion indicates that above all else its conclusion was based on its perception of the harm that would accrue to A&P in the absence of preliminary relief:
>
> '[T]o permit the tender offer to go forward could have serious detrimental effects on A&P. It is possible that A&P would be involved in a violation of the antitrust laws. There is

> testimony in the record that the executives of A&P have already suffered a tremendous downgrading of morale with just the suggestion that the company was about to be taken over by G&W. Moreover, if this Court permitted the tender offer to be consummated and at some later date were to find the violations charged by A&P, it would be almost impossible to unravel the situation.'
>
> We agree." (Id. at 698; emphasis supplied).

It is hardly surprising that the issuance of the preliminary injunction in Gulf & Western was bottomed "above all else" on a finding of irreparable injury to the private suitor, since Section 16 of the Clayton Act, unlike Section 15,* expressly conditions the grant of such relief on such a finding in a private antitrust case. What is surprising is SCM's reliance on a decision which squarely reiterates as "particularly applicable here" (id. at 692) the Second Circuit's consistent position that:

> "'The purpose of a preliminary injunction is to maintain the status quo pending a final determination of the merits . . . . It is an extraordinary remedy, and will not be granted except upon a clear showing of probable success and possible irreparable injury (emphasis that of the Court) . . . .'" (Id. at 692,

*". . . pending such petition, and before final decree, the court may at any time make such temporary restraining order or prohibition as shall be deemed just in the premises." 15 U.S.C. § 25.

quoting from Checker Motors Corp. v. Chrysler Corp., 405 F.2d 319 (2d Cir. 1969), cert. denied, 394 U.S. 999 (1969)).

Far from supporting SCM, therefore, the Gulf & Western case is further authority for the proposition that the relief sought by SCM is unavailable as a matter of law.

In sum, any claim of irreparable injury here is transparently illusory in light of the absence of any need for the requested relief, the plain adequacy of a remedy at law in money damages and SCM's inordinate delay in commencing suit. Since the statutory prerequisite of immediate irreparable harm is demonstrably lacking, the requested preliminary injunction is not legally permissible and must be denied.

Viewed realistically, it is apparent that SCM's motion for a preliminary injunction is a pure smokescreen. SCM has no need for the relief it seeks. As we have seen, the desired injunction, if granted, would not have any effect on SCM's ability -- already exercised -- to begin the marketing of plain paper copiers. SCM's purpose on this motion cannot be to obtain relief it plainly does not require. Rather, it is to obtain from the Court an advisory opinion, in the guise of a ruling with respect to interlocutory relief, on SCM's likelihood of success on the merits of this action.

SCM's counsel candidly informed the Court in

chambers that it desires such a ruling to permit it to decide whether it should make a substantial investment in plain paper copiers without fear of ultimate exclusion by reason of the lawful assertion of Xerox' patent rights -- an investment which, interestingly enough, it has already made. In other words, SCM wants the Court to act as an odds-maker, and let SCM know now -- in advance of discovery by Xerox and trial of this highly complex matter -- what its chances are of ultimately prevailing on its antitrust claim. Of course, that is not the Court's proper function. Indeed, this Court has no constitutional jurisdiction to render an advisory opinion,* and furthermore, the rendering of judicial advice is plainly not the purpose or function of a preliminary injunction.

Any lingering doubt as to SCM's real intention was totally disspelled by a letter from SCM's counsel to Xerox' counsel dated January 18, 1974 (a copy of which is appended hereto as Appendix C). Apparently recognizing the weakness of its legal position with respect to the preliminary relief sought in the complaint, SCM offers the Court a blank check to order:

> "any other relief fashioned by the Court to ameliorate what, after hearing, the Court may perceive to be

*Even if this were an action for a declaratory judgment, which it is not, the Court could not constitutionally render an advisory opinion. See, e.g., Public Service Commission v. Wycoff Co., 344 U.S. 237 (1952).

> continuing and future harm to SCM or the public from violations or threatened violations of law; or any relief needed to preserve the Court's ultimate ability to fulfill the statutory objectives and to grant meaningful final relief."*

What SCM has failed to offer the Court is any explanation of how it can be irreparably injured by the failure to receive totally unspecified preliminary injunctive relief. It is literally unheard of for a litigant to ask a court of equity to grant whatever preliminary injunction the Court may see fit to enter. Such a prayer flies squarely in the face of the equitable requirement -- codified by statute in private antitrust actions -- that a plaintiff establish the immediate threat of irreparable injury if a preliminary injunction is not granted. How SCM can be irreparably injured if it does not receive relief which it has not even defined defies the imagination. Manifestly, SCM is grasping at straws.

*Mr. Kaye also states that "such other relief may include additional kinds of relief described in the Joint Position of Control Data Corporation and other companies (Exhibit 1 to SCM's motion)." But the "interim" relief which several of IBM's competitors suggested that the Justice Department seek (and which the government has not sought and the Court has not granted) had nothing to do with preliminary relief. It was designed to take effect after a final adjudication that IBM had violated the law but before all the complicated terms of a final decree could be formulated, a process which it was feared might take years. The language of the position paper could not be clearer: "The underlying assumption of this Memorandum is that the government will establish a monopolization violation at the trial, and a monopolization finding necessarily means that the District Court will have found that IBM has the power to exclude competitors from the market." (p. 2). The total irrelevance of such "interim relief" on a motion for a preliminary injunction prior to trial is self-evident.

Defendant's Memorandum with Respect to Legal Sufficiency of Plaintiff's Request for Preliminary Injunction

CONCLUSION

The preliminary injunctive relief requested in SCM's complaint is unavailable as a matter of law. Rather than preserve or restore the last uncontested status of the parties, such relief would confer upon SCM a status it has never previously enjoyed. Furthermore, the immediate irreparable harm required by Section 16 of the Clayton Act is plainly absent. Since the prayed-for relief can in no event be granted, a hearing on SCM's motion would be an essay in futility. The motion should therefore be denied.

Respectfully submitted,

Dated: February 4, 1974

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E 405

Defendant's Memorandum with Respect to Legal Sufficiency of Plaintiff's Request for Preliminary Injunction

LEGAL FILE

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

CHAMBERS OF
GEORGE H. BARLOW
JUDGE

FEDERAL BUILDING
TRENTON, NEW JERSEY 08608

July 11th, 1973.

FILED
JUL 13 1973
2 P. M.
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RE: PITMAN-MOORE, INC., a New Jersey corporation, and JOHNSON & JOHNSON v. THE DOW CHEMICAL COMPANY, DOW AGRICULTURAL PRODUCTS, a division thereof, DOW PHARMACEUTICALS, a division thereof, and PITMAN-MOORE, INC., an Indiana corporation; Civil Action No. 480-73.

OPINION AND ORDER

Gentlemen:

The subject matter of this lawsuit is a contract executed in 1969 between plaintiff Johnson & Johnson and The Dow Chemical Company in which defendant Dow agreed to transfer certain assets of the veterinary business of its Pitman-Moore Division to Johnson & Johnson for 4.5 million dollars. Jurisdiction is predicated upon §§4 and 16 of the Clayton Act, 15 U.S.C. §§15 and 26.

APPENDIX A

The complaint alleges six different claims for relief: (1) antitrust violations (a conspiracy in restraint of trade, as well as an attempt to monopolize); (2) fraudulent misrepresentation; (3) breach of contract; (4) breach of warranty; (5) negligence; (6) strict liability.

The plaintiffs have moved here initially for preliminary injunctive relief concerning one section, 8.04 of this complex and multi-faceted contract. The subject matter of this provision concerns the disposition of biological and pharmaceutical products which were "in the investigative stage" at the time the contract was entered into. More specifically, plaintiffs Pitman-Moore and Johnson & Johnson claim that they are entitled, under §8.04, to the rights to six pharmaceutical products which Dow has refused to turn over to Johnson & Johnson. These six products are: (1) Dursban - an insecticide used on small animals; (2) rifamycin - an antibiotic used in animals (topical, injectible and oral applications); (3) Roxilon - a hormone used for livestock development; (4) ronnel - an anti-worm preparation for horses; (5) Ruelene - a cattle anti-worm preparation; (6) fospirate - an anti-worm preparation.

The defendant denies that it is required to turn over the six disputed products under the provisions of §8.04.

The substance of plaintiffs' demand for relief is that Dow be restrained from developing or marketing any of the products and, further, that Dow be ordered to turn over all right, title and interest in the products to plaintiff Pitman-Moore, Inc., so that company may begin its own development and marketing efforts. Plaintiffs insist that the extended delay which would result if they are unable to obtain the products until the final resolution of this litigation would cause them irreparable harm.

After a careful review of the facts of this case and the applicable law, I am satisfied that the plaintiffs' request for a preliminary injunction must be denied.

§8.04

§8.04 reads as follows:

"8.04. Dow will, before the closing date, report to J & J all new pharmaceutical and biological products intended for veterinary use still in the V.I.D., I.N.D. or investigational stage and all toxicity studies in progress on such products, and J & J shall have the right, with respect to such products intended for use by veterinarians to elect within 45 days after receipt of such report whether it wishes to continue such work after the closing date or have Dow continue such work. With respect to all other veterinary products, Dow shall specify whether it intends to continue such work after the closing date, and, as to work which Dow does not elect to continue, J & J shall within 45 days after receipt of such report deliver a written election stating what work J & J wishes Dow to continue and what work shall be dropped as to products which Dow does not elect to continue. All work which J & J elects to continue shall be continued by Dow or J & J, as J & J directs, and J & J shall pay the total actual cost of such continued work after the closing date. All patent disclosures or patent rights and all other rights pertaining exclusively to the veterinary aspects of such work shall belong to J & J."

The meaning of the following phrases from the above paragraph is disputed: (1) "Dow"; (2) "still in the . . . investigational stage"; (3) "such products intended for use by veterinarians"; (4) "all other veterinary products"; (5) "All patent disclosures or patent rights and all other rights pertaining exclusively to the veterinary aspects of such work shall belong to J & J.".

The plaintiffs' interpretation of these disputed phrases is substantially as follows:

(1) "Dow" includes the parent Dow Chemical Company and all its subsidiaries, foreign and domestic.

(2) "still in the . . . investigational stage" includes all products research which Dow personnel had initiated, whether or not the research was "dormant" or had been terminated prior to the execution of the contract.

(3) "such products intended for use by veterinarians" includes not only products which may be distributed only by veterinarians -- the so-called "ethical" veterinary market -- but, also, products which may be sold in lay channels -- or over-the-counter - as well.

(4) "all other veterinary products" refers only to new veterinary products which were to be marketed exclusively through lay channels and over which Dow has the first option to continue ownership. Plaintiffs claim this section has no relevance to the present motion since all of the products involved allegedly fall within the category "products intended for use by veterinarians".

(5) "All patent disclosures or patent rights and all other rights pertaining exclusively to the veterinary aspects of such work shall belong to J & J." refers to work which J & J elects to have continued with respect to their interpretation of "all products intended for use by veterinarians", in the first sentence of §8.04.

The plaintiffs basically place a broad interpretation upon the scope of products covered by the first part of §8.04. Not only drugs sold exclusively by veterinarians, but, also, drugs commonly sold by veterinarians are, they insist, encompassed by "such products intended for use by veterinarians", which J & J had the first option to purchase. Additionally, the number of products covered is enlarged by the plaintiffs' proffered construction of "Dow" and "still in the . . . investigational stage". Under J & J and Pitman-Moore's interpretation, the six products which are the subject matter of this motion clearly belong in the first category over which plaintiffs have a first option to purchase.

However, Dow's interpretation of these same phrases contrasts sharply with the plaintiffs', which interpretation has the effect of either excluding the products in question from the operation of §8.04 or of placing them within that part of the provision over which the defendant Dow has the first option to retain ownership. The defendants' interpretationsof the key phrases are as follows:

(1) "Dow" means only the parent Delaware corporation and not any of Dow's foreign subsidiaries.

(2) "still in the . . . investigational stage" refers to "late stage" products still under active investigation by Dow at the time of the signing of the contract, and does not cover products where research had been discontinued before the agreement.

(3) "such products intended for use by veterinarians" encompasses something less, suggests Dow, than the preceding phrase, "intended for veterinary use", found earlier in the same sentence. The difference, argues Dow, is that the latter phrase encompasses all animal health products (which are capable of distribution by veterinarians) while the disputed phrase means animal health products which can only be distributed by veterinarians.

(4) The defendants claim that "all other veterinary products" logically refers to all animal health products not covered by "such products intended for use by veterinarians", meaning animal health products capable of over-the-counter distribution as well as sale by veterinarians.

(5) "All patent disclosures or patent rights and all other rights pertaining exclusively to the veterinary aspects of such work shall belong to J & J." refers to two product areas. The first is all products "intended for use by veterinarians" which the plaintiff has elected to purchase. The second is "all other veterinary products" over which Dow has declined to exercise its option of continued ownership and which J & J has then elected to purchase.

As a result of its interpretation of these contract provisions, Dow seeks to exclude the six products from its coverage for the following reasons: (1) Rifamycin is owned by a foreign subsidiary of Dow, Lapetit, and, further, was not "still under active investigation" at the time of the contract; (2) Roxilon is a human, not an animal, health product and is also owned by LaPetit; (3) Ronnel was not under active investigation at the time of the making of the contract; (4) Ruelene was not under active investigation at the time of the making of the contract; (5) Dursban is a product which is sold primarily in the over-the-counter market and not solely by veterinarians; (6) Fospirate is a product which is sold primarily in the over-the-counter market and not solely by veterinarians.

In addition to their vigorous and contrasting explanation of §8.04, the defendants raise another argument in opposition to the motion for preliminary injunctive relief, arguing that it would be inappropriate for this Court to attempt to interpret §8.04 out of context without considering the meaning of these phrases in light of the remaining sections of this very extensive and very complex contract. The proper meaning of §8.04 can only be gleaned, defendants assert, by reading it in the context of the entire contract. Such a task would necessarily involve a plenary hearing on the merits of plaintiffs' entire case. Accordingly, it would be improper to attempt to resolve the issue on this motion for preliminary injunction.

APPLICABLE LAW

The Third Circuit has recently enunciated four factors which must be present in order to grant a preliminary injunction: (a) irreparable harm to the plaintiff absent such relief; (b) absence of substantial harm to other interested parties; (c) absence of harm to the public interest; (d) a likelihood that plaintiff will prevail on the merits. Commonwealth of Pennsylvania ex rel. J. Shane Creamer, et al v. United States Department of Agriculture, _____ F. 2d _____, No. 72-1600, and James A. McHale, Secretary of Agriculture v. United States Department of Agriculture, _____ F. 2d _____, No. 72-1661 (3rd Cir., November 28, 1972); In re Penn Central Transportation Company, 457 F. 2d 381, 384-385 (3rd Cir. 1972); Croskey Street Concerned Citizens v. Romney, 459 F. 2d 109, 112 (3rd Cir. 1972), concurring opinion, Aldisert, J.; Winkleman v. New York Stock Exchange, 445 F. 2d 786, 789 (3rd Cir. 1971); Nelson v. Miller, 373 F. 2d 474, 477 (3rd Cir. 1967). Section 16 of the Clayton Act also requires a showing, in a private suit asking injunctive relief, " . . . that the danger of irreparable loss or damage is immediate".

We shall confine our analysis here primarily to the questions of irreparable harm to the plaintiffs and the probability that Johnson & Johnson and Pitman-Moore will ultimately prevail on the merits of this suit.

PROBABLE CHANCE OF SUCCESS

We note initially that plaintiffs carry the heavy burden of demonstrating, by clear and convincing evidence, a strong probability that they will ultimately be successful in their lawsuit. When convincing evidence is lacking or when it is matched by strong contrary evidence so as to create unresolved issues of fact and law, the extraordinary remedy of a preliminary injunction must be denied. Clifton Park Manor, Section One, Inc. v. Mason, 137 F. Supp. 324, 325 (D. Del. 1955); North Carolina Natural Gas Corp. v. United States, 200 F. Supp. 740, 743 (D. Del. 1961); Evening News Pub. Co. v. Allied Newspaper Carriers, 149 F. Supp. 460, 463 (D.N.J. 1957); Oleg Cassini, Inc. v. Couture Coordinates, Inc., 297 F. Supp. 821, 832 (S.D.N.Y. 1969).

The plaintiffs here have extracted one provision from an extensive and detailed agreement and offered their interpretation of it, supported largely by self-serving affidavits and selective quotations from depositions. The defendants, in their turn, suggest a different interpretation, supported by similar documentation and argument. After examining all of the relevant evidence, we can only conclude that plaintiffs have presented us with a possible interpretation of §8.04, but hardly one which precludes all others. In particular, plaintiffs' analysis of "such products intended for use by veterinarians" and "all other veterinary products" appears somewhat strained. The underlying difficulty, however, is the attempt to devine Johnson & Johnson's and Dow's intentions as to the pharmaceutical products by analyzing only a fragment of the disputed contract. Clearly, some of the apparent ambiguities of §8.04 would be dispelled following a plenary hearing; however, a full-scale hearing on the merits of the entire case is obviously not appropriate in a motion for preliminary injunctive relief. Accordingly, in view of the unresolved issues of fact and law still before the Court, it cannot be said that plaintiffs have satisfied the burden of showing a likelihood of success on the merits.

IRREPARABLE HARM

Similarly, we are not persuaded that the plaintiffs will suffer irreparable harm if these six disputed products are not turned over to them immediately. Certainly neither the parent Johnson & Johnson nor Pitman-Moore suggested that they would be forced out of business or would be unable to pursue this litigation should the preliminary injunction not be granted.

Plaintiffs do argue that, since most of the products in question are not yet fully developed, any delay in development and subsequent marketing by the plaintiffs may result in: (1) a shortened period of patent protection for the products; (2) elimination of the products from the market by newer, more effective products, and (3) maintenance of an unfair competitive advantage by Dow over the plaintiffs as a supplier of veterinary products.

I am confident, however, that should the plaintiffs prevail in this case an accounting for lost profits and other damages, although difficult, would not be an impossible task. In short, plaintiffs have an adequate remedy at law for money damages and, therefore, have failed to make the requisite showing of irreparable harm necessary to obtain injunctive relief.

THE NATURE OF THE RELIEF REQUESTED

Even if this Court were to find that the elements of irreparable harm and probability of success existed in this case, I still would be required to deny the motion for a preliminary injunction because the requested relief would permit the plaintiffs to attain a status which it has never before held, that is: the owner of the six products which are the subject matter of this litigation. The Third Circuit has consistently refused to countenance a preliminary injunction whose effect is to alter the status quo ante and place one party in a new position which it is seeking to make permanent through the litigation.

In Warner Bros. Pictures v. Gittone, 110 F. 2d 292, 293 (3rd Cir. 1940), the issue was "the right of the defendant distributor to refuse to furnish the plaintiff theatre with first-run moving pictures". The District Court granted the requested preliminary injunction, requiring the defendants to furnish such first-run pictures -- a status the plaintiff theatre had never previously enjoyed. The Third Circuit reversed, holding:

> "We have pointed out frequently that the granting of a preliminary injunction is an exercise of very far-reaching power, never to be indulged in except in a case clearly demanding it. . . . To justify the granting of such an injunction there must be a showing of irreparable injury during the pendency of the action. . . . It must also appear that the injunction is required to preserve the status quo pendente lite. . . .

> "In the present case the trial judge found that the exhibitor plaintiffs have suffered and will suffer irreparable loss unless given injunctive relief. The defendants strongly urge that this finding is not supported by the record. We need not decide this question, however, for we are clear that the effect of the preliminary injunction which the Court granted was not to preserve the status quo but rather to alter the prior status of the parties fundamentally. Such an alteration may be directed only after final hearing, the office of a preliminary injunction being, as we have pointed out, merely to preserve pendente lite the last actual noncontested status which preceded the pending controversy. . . . Irreparable loss resulting from refusal to accord the plaintiff a new status, as distinguished from interference with rights previously enjoyed by him, does not furnish the basis for interlocutory relief." (Emphasis added.)

See, also: Sylvan Seal Milk, Inc. v. Milk Control Commission, 264 F. Supp. 1001, 1005 (E.D. Pa. 1967) (three-judge court); Kontes Glass Co. v. Lab. Glass Co., 250 F. Supp. 193, 195 (D.N.J. 1966) aff'd 373 F. 2d 319 (3rd Cir. 1967); Ball v. Paramount Pictures, Inc., 57 F. Supp. 505, 507 (W.D. Pa. 1944); N.W. Controls, Inc. v. Outboard Marine Corp., 317 F. Supp. 698, 704 (D. Del. 1970); Tully v. Mott Supermarkets, 337 F. Supp. 834, 851 (D.N.J. 1972).

I am satisfied that this case falls squarely within the Warner Bros. rationale. Johnson & Johnson and Pitman-Moore are attempting to alter the last uncontested status quo, i.e. the position of the parties before the contract was entered into, with respect to these six products. The granting of a preliminary injunction would place the plaintiffs in a preferred position, a position which they have never held before and which they seek to make permanent by this action. Under these circumstances, a preliminary injunction should not issue.

Accordingly, for the reasons stated above, the plaintiffs' motion for preliminary injunctive relief is denied.

Very truly yours,

George H. Barlow
United States District Judge

GHB/ebj

12 THE WALL STREET JOURNAL, Wednesday, December 5, 1973

SCM to Market High-Speed Copier Made by Van Dyk

Contract Calls for Firm to Buy A Minimum of $6 Million Of Machinery for Leasing

By a WALL STREET JOURNAL *Staff Reporter*

NEW YORK—SCM Corp. said it will market the high-speed, plain-paper office copier made by Van Dyk Research Corp., which failed earlier this year to complete a proposed merger into Apeco Corp.

SCM said it will buy at least $6 million of the Van Dyk copiers, under a contract that it can terminate during the first six months. The contract provides for SCM purchases of $42 million of copiers over two years and for an extension at SCM's option.

Van Dyk will continue to market the copier under its own name. And SCM said it will continue to develop its own plain-paper copier, which it expects to introduce in 1975.

Van Dyk, a small concern based in Whippany, N.J., makes a plain-paper machine that can produce 1,000 copies an hour, currently the fastest rate available. Apeco, of Chicago, agreed last March to acquire Van Dyk, and shareholders of both companies voted once in favor of the transaction.

However, in September, after a sharp drop in the market value of the Apeco stock that would have been issued to Van Dyk shareholders, the companies said they would ask holders to vote again on the basis of new information about Apeco's bank-loan agreement and about the financial status of both companies. Later that month, relations reached an impasse, and the agreement was allowed to expire.

SCM has long made the less popular copiers that use specially coated reproduction paper. Last July, SCM filed a civil antitrust suit accusing Xerox Corp., the dominant copier maker, of monopolizing the plain-paper copier business, principally through its patent position. Xerox replied that the charges were "completely without merit." The suit is pending.

SCM will buy the Van Dyk copiers outright, but charge customers on a per-copy basis. Paul H. Elicker, president of SCM, said there would be "a minor negative effect on SCM's earnings" for the balance of the fiscal year ending June 30.

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Defendant's Memorandum with Respect to Legal Sufficiency of Plaintiff's Request for Preliminary Injunction

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January 18, 1974

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Re: SCM Corporation v. Xerox Corporation,
Civ. No. 15807

Dear Stanley:

I am writing to avoid any possible misunderstanding concerning the preliminary injunctive relief sought by SCM and Xerox's asserted legal defenses to the granting of that relief.

In its brief to be submitted to Judge Newman, SCM intends to show the existence of the Court's power to grant a broad range of preliminary injunctive relief, prohibitory or mandatory or both. SCM intends to show that Xerox cannot sustain its contentions of legal insufficiency of SCM's request for the kinds (or lesser-included kinds) of preliminary injunctive relief described in paragraphs 49 to 53 of the Amended Complaint, and SCM's request for such other or further or alternative relief as may be appropriate or necessary and as the Court may deem just and proper (as contained in its preliminary injunction motion of November 16, 1973 and paragraph 54 of the Amended Complaint).

APPENDIX C

PRG&M

SCM considers that such other relief may include additional kinds of relief described in the Joint Position of Control Data Corporation and other companies (Exhibit 1 to SCM's motion); any other relief fashioned by the Court to ameliorate what, after hearing, the Court may perceive to be continuing and future harm to SCM or the public from violations or threatened violations of law; or any relief needed to preserve the Court's ultimate ability to fulfill the statutory objectives and to grant meaningful final relief.

Sincerely,

S. R. Kaye

SRK:er

cc: Hon. Jon O. Newman

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SCM'S MEMORANDUM IN OPPOSITION TO XEROX'S CONTENTION THAT AS A MATTER OF LAW INJUNCTIVE RELIEF IS NOT AVAILABLE

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,

Plaintiff,

-against-

XEROX CORPORATION,

Defendant.

Civil No. 15807

SCM'S MEMORANDUM IN OPPOSITION TO XEROX'S CONTENTION THAT AS A MATTER OF LAW INJUNCTIVE RELIEF IS NOT AVAILABLE ON SCM'S MOTION FOR A PRELIMINARY INJUNCTION

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SCM's Memorandum in Opposition to Xerox's Contention that as a Matter of Law Injunctive Relief is Not Available

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SCM's Memorandum in Opposition to Xerox's Contention that as a Matter of Law Injunctive Relief is Not Available

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,	:	
Plaintiff,	:	
-against-	:	Civil No. 15807
XEROX CORPORATION,	:	
Defendant.	:	

SCM'S MEMORANDUM IN OPPOSITION TO XEROX'S CONTENTION THAT AS A MATTER OF LAW INJUNCTIVE RELIEF IS NOT AVAILABLE ON SCM'S MOTION FOR A PRELIMINARY INJUNCTION

Introduction

In directing this briefing, the Court has focused on two matters: Xerox's contention that the relief sought by SCM goes beyond the preservation of the status quo for which, upon a proper showing, a preliminary injunction may issue; and the question whether the injury which SCM seeks to prevent is the type of irreparable injury that justifies preliminary injunctive relief (Memorandum Decision of January 3, 1974 at p. 8).

Points I and II of this memorandum are a discussion of pertinent principles and authorities which show that Xerox's contentions as to the preservation

of the status quo are erroneous; that the injury SCM seeks to prevent to itself and the public is irreparable and does justify preliminary injunctive relief; that judicial power exists to grant a broad range of preliminary prohibitory and mandatory relief in the circumstances of this case upon a hearing; and that it cannot be concluded as a matter of law that SCM's motion for a preliminary injunction should be denied. Point I also includes a discussion of the impact of the public interest on the standards to be applied in determining that motion, and the breadth of relief which can be granted accordingly.

Point III discusses this Court's power to grant permanent relief upon a preliminary injunction hearing.

Point IV discusses the kinds and extent of preliminary relief which conceivably can be granted after such a hearing in the light of the specific factual and legal claims made by SCM. Such relief is that described in paragraphs 49 to 53 of the Amended Complaint, and such other or further or alternative relief as the Court may deem just including additional kinds of relief described in the Joint Position of Control Data Corporation and other companies (Exhibit 1 to SCM's motion of November 16, 1973), and other relief fashioned by the Court to ameliorate what, after hearing, the Court may perceive to be continuing and future harm to SCM or the public

from violations or threatened violations of law; or any relief needed to preserve the Court's ultimate ability to fulfill the statutory objectives and to grant meaningful final relief.*

POINT I

JUDICIAL POWER EXISTS TO FASHION THE BROADEST POSSIBLE RANGE OF PROHIBITORY AND MANDATORY PRELIMINARY RELIEF, IN WHATEVER WAY THE STATUS QUO IS VIEWED

A. THE FACTUAL ASSUMPTIONS OF XEROX'S VIOLATIONS OF LAW THAT UNDERLIE THIS MOTION

Xerox's demurrer to plaintiff's motion for a preliminary injunction only challenges the existence of the power of this Court to grant any equitable relief after a hearing on the merits of SCM's motion for preliminary injunction. Therefore, it must be assumed for purposes of testing that demurrer that SCM will establish at the hearing the truth of its claims and allegations, i.e., it must be assumed that the Court will conclude after the hearing that, on the proof adduced by the parties, SCM has demonstrated to a legal certainty (or at least SCM has shown the strongest possible likelihood of ultimately demonstrating) that:

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* See SCM's motion for a preliminary injunction dated November 16, 1973, and paragraph 54 and WHEREFORE clause of the Amended Complaint. See also letter of January 18, 1974 from S.R. Kaye to S. D. Robinson, a copy of which was forwarded to the Court.

SCM's Memorandum in Opposition to Xerox's Contention that as a Matter of Law Injunctive Relief is Not Available

> Xerox has violated and threatens to continue to act in violation of Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act in the manner alleged;
>
> Xerox's acts and threatened acts, and their effects and threatened effects, are unlawful as alleged; and
>
> As a result, SCM, other potential and actual competitors, users of plain paper office copiers and the public generally have been and will continue to be injured by being deprived of or restrained from the opportunities and benefits of full and fair competition, and by being required to shoulder the burdens of Xerox's monopolistic and anticompetitive acts and their effects.

Given those assumptions, it is, SCM contends, inconceivable that this Court lacks any equitable power to grant any relief on SCM's motion for a preliminary injunction. As we show, a court of equity focuses on the needs for relief in the light of possible or apparent violations; and when found to exist, it fashions the remedies so as to best fulfill those needs and to abate those violations and their effects.

In whatever way analyzed, Xerox cannot sustain its position that SCM's motion for a preliminary injunction should be denied as a matter of law in advance of the hearing on the merits of that motion. In order for Xerox to succeed on its contentions, it must, as with a motion to dismiss under Rule

12(b)(6) in respect of final relief*, negate every and any conceivable possibility that relief can be granted after hearing of SCM's motion for a preliminary injunction. This it cannot do.

The granting or denial of relief, and if granted, the nature and extent of that relief, are entirely dependent on SCM's success or lack of success, after submissions by both parties at that hearing, in making a proper affirmative showing. To take the most extreme example, it is at least conceivable that SCM can establish as a matter of law on proof submitted at the hearing, that Xerox had a monopolistic 100% market share until 1970, and since then more than a 95% monopolistic share of the relevant plain paper office copier submarket. In such a case, Xerox's indisputable purchases and acquisitions of patented and unpatented technology, stock and other assets, its exclusive agreements, its refusals to deal and its other restraints are per se illegal. See Handler 25 Years of Antitrust at 55-56, 276, 365-366, 368, 693 (1973).

Likewise, to use but one other example, it is at least conceivable that SCM can show as a matter of law that in a relevant market most broadly contended for by Xerox in which it nevertheless possesses a substantial share, Xerox's purchases and acquisitions violate Section 7 of the Clayton Act.

If and to the extent such showings are made to a legal certainty on the hearing of a motion for a preliminary injunction,

* Conley v. Gibson, 355 U.S. 41, 45-46 (1957); Haines v. Kerner, 404 U.S. 519, 520-521 (1972); F.R.C.P. Rule 54(c); Annotation 16 A.L.R. Fed. 748 and cases cited therein.

the Court possesses the power, which should be exercised to grant permanent relief. See Point III, below.

B. THE IMPACT OF THE PUBLIC INTEREST ON THE BREADTH OF JUDICIAL POWER

Whether a motion for preliminary injunction should be granted or denied, and, if granted, what the nature and extent of the relief should be, are questions which depend upon the sum total of the Court's consideration, weighing and balancing of various factors, no one of which is ordinarily determinative. We discuss those factors here.

Before reaching such concepts as status quo and irreparable injury in the analysis of the breadth of the Court's power to fashion preliminary injunctive relief, (i.e., the Court's power to determine "how best to create or preserve a state of affairs" during the pendency of the action to enable it to render a meaningful final decision for the parties*) it is necessary first to describe the impact of the public interest in the consideration of the motion. For, not only are the interests of the plaintiff and defendant involved in this action, the public interest is also involved and is the most important interest from the Court's standpoint.

* Developments in the Law - Injunctions, 78 Harv. L. Rev. 994, 1056, 1058 (1965); and the entire discussions of preliminary injunctions at 1056-59, 1062-63.

SCM's Memorandum in Opposition to Xerox's Contention that as a Matter of Law Injunctive Relief is Not Available

When plaintiff, as SCM here, acts in the "dual role" of private party and private attorney general, it is the public interest which is the "paramount" factor to be considered in determining a motion for preliminary injunction. To the extent shown on the hearing of that motion, if it appears that the defendant is proceeding in violation of the antitrust laws, a preliminary injunction serves the public interest as much as the plaintiff's private interests. Gulf & Western Industries, Inc. v. The Great A. & P. Tea Company, Inc., 476 F.2d 687, 698-699 (2d Cir. 1973) (hereafter "Gulf & Western").

When, as is shown by SCM's Amended Complaint, the alleged violations of the antitrust laws have great magnitude and far-reaching consequences, the public interest requires the application of the same standards in determining a private party's motion for a preliminary injunction as are applied in determining such a motion made by the government (Gulf & Western, 476 F.2d at 693, where Gulf & Western's acquisition of stock of A & P was challenged as violative of the federal securities laws and of Section 7 of the Clayton Act). It is "the standards of the

public interest and not the requirements of private litigation [which] measure the propriety and need for injunctive relief" in cases involving violation of statutes. Hecht v. Bowles, 321 U.S. 321, 331 (1944). The antitrust laws express one of our strongest fundamental national policies, a public policy in favor of the promotion of competition and the restraint of actual and incipient monopolistic and anti-competitive practices. Perma Life Mufflers, Inc. v. International Parts Corp., 392 U.S. 134 (1968).

When the public interest is clear, pervasive and vital on the record developed in the preliminary injunction hearing, any doubts whether the injunction sought is necessary to safeguard the public interest "should be resolved in favor of granting the injunction." Gulf & Western, 476 F.2d at 699, citing United States v. First National City Bank, 379 U.S. 378, 383 (1965); Mitchell v. Pidcock, 299 F.2d 281, 287 (5th Cir. 1962).

At the instance of a private party, where "federally protected rights have been invaded, it has been the rule from the beginning that courts will be alert to adjust their remedies so as to grant the necessary relief." Bell v. Hood, 327 U.S. 678, 684 (1946); see also J. I. Case v. Borak, 377 U.S. 426, 433 (1964). Moreover, when such

matters are invested with a public interest, "Courts of equity may, and frequently do, go much farther both to give and withhold relief in furtherance of the public interest than they are accustomed to go when only private interests are involved." Virginian Railway v. Federation, 300 U.S. 515, 552 (1937).

C. In Whatever Way the Status Quo is Viewed, Judicial Power Exists to Fashion the Broadest Possible Range of Prohibitory and Mandatory Preliminary Injunctive Relief.

Xerox says that "the only proper function of a preliminary injunction" is to preserve the status quo (Memorandum of December 4, 1973, at p.5). One series of questions raised thereby is:

(1) What is the "status quo" to be preserved, particularly when the Court finds that there is a likelihood that the defendant is violating or has violated a statute;

(2) To what extent can the Court change the state of affairs or alter the rights of the parties as they existed at or prior to the commencement of the action?

Chief Justice (then Circuit Judge) Taft stated more than 80 years ago:

> "The office of a preliminary injunction is to preserve the status quo until, upon final

> hearing, the court may grant full relief. Generally, this can be accomplished by an injunction prohibitory in form, but it sometimes happens that the status quo is a condition not of rest, but of action, and the condition of rest is exactly what will inflict the irreparable injury upon complainant, which he appeals to a court of equity to protect him from. In such a case courts of equity issue mandatory writs before the case is heard on its merits." Toledo, A. A. & N. M. Ry. Co. v. Pennsylvania Co., 54 Fed. 730,741 (C.C. N.D. Ohio (1393)).

He went on to observe that since Lord Thurlow's time, the preliminary mandatory injunction has been used to remove riparian obstructions because of the rights of riparian owners to the continuous flow of the stream without obstruction. Therefore, he reasoned, "an obstruction to the flow of interstate freight must be preliminarily enjoined, even though it requires a mandatory injunction." Ibid. In that case, on the record developed on the motion for preliminary injunction, the Court held that the defendant union was unlawfully obstructing the flow of interstate freight; that such obstruction was causing irreparable injury to the plaintiff railroad (because of the inadequacy of money damages); and therefore the preliminary injunction was granted.

On this view, there is no talismanic phraseology that determines the issuance or denial of a preliminary injunction. All of the facts of the particular case have to be examined

to determine the nature of the status quo which has to be preserved in order to avoid irreparable injury to the plaintiff. This, preservation of the status quo cannot mean preservation of a situation in which interstate commerce is obstructed by the continuing effects of present or past likely violations of the antitrust laws, or by threatened new acts which also are likely antitrust violations. Accordingly, upon a proper showing at the preliminary injunction hearing, the Court possesses broad power to grant preliminary injunctive relief to restrain those effects or those new threatened acts.

This approach is consistent with what was said by the Supreme Court in United States v. American Tobacco Company, 221 U. S. 106, 188 (1911). The Court held that, as a matter of interim relief pending the bringing about of permanent relief (where the Court had held that defendants violated Section 2 of the Sherman Act, an assumption which also must be made at this juncture with respect to Xerox's conduct), the defendant should be restrained from doing any act, by any means or device whatsoever, to enlarge its monopolistic power. In the weighing and balancing process involved in determining a motion for preliminary injunction, the Court likewise possesses the power to grant preliminary injunctive relief against any acts which may perpetuate or enlarge the defendant's likely monopolistic powers, or the effects of its other probable past and future antitrust violations.

SCM's Memorandum in Opposition to Xerox's Contention that as a Matter of Law Injunctive Relief is Not Available

In analyzing a number of state court decisions it has been concluded that "a common exception to the status quo rule is found in cases involving acts prohibited by statutes." Developments in the Law - Injunctions, 78 Harv. L. Rev. 994, 1057 (1965). The Review goes on to point out that courts "have explained that 'the status quo could never be a condition of affairs where the respondent would be permitted to continue the acts constituting that violation'". Ibid.

The federal courts, including the Second Circuit, follow the same principle where the record developed on a motion for preliminary injunction shows a reasonable ground to believe that there is a violation of a federal statute expressing a public policy.

Judge Mulligan stated and held in Danielson v. Local 275, Slip Opinion No. 972 (2d Cir., May 31, 1973)(not yet officially reported),with respect to a likely violation of the National Labor Relations Act*:

> "As we have had occasion to point out recently a basic purpose of a preliminary injunction is to maintain the

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* In Danielson, as in MCI Communications Co. v. American Telephone & Telegraph Co., discussed infra, preliminary injunctive relief was granted pursuant to statute, in furtherance of the jurisdiction of a federal government agency, rather than, as here, pending a final determination by the Court. The equitable standards for issuance of a preliminary injunction are the same in both situations. (E.g., Danielson, Slip Opinion at 3898)

> status quo. [Citations omitted] The failure to issue an injunction here maintains not the status quo but protects what the court below had found the Board has reasonable ground to believe, is a violation of the statute." (Slip Opinion, p. 3901)

In Danielson, the state of affairs which existed at the commencement of the suit was picketing which had been going on for three months by members of the defendant union. That state of affairs was changed by the prohibitory preliminary injunction against further picketing pending a determination by the National Labor Relations Board of the unfair labor practice charge.

The Second Circuit has also affirmed the granting of prohibitory preliminary injunctive relief which created a state of affairs different from the long pre-existing state of affairs in a civil context where there was no statutory violation or public interest factor. For example, in Unicon Management Co. v. Koppers Co., 366 F.2d 199, 204 (2d Cir. 1966) plaintiff had managed a division of defendant for a long period of time prior to the commencement of the action. Defendant moved for and was granted a prohibitory preliminary injunction. That injunction during the pendency of the action restrained plaintiff from denying defendant the right to manage the division; it restrained plaintiff from denying defendant access to the offices of the division; it restrained plaintiff from carrying on any business of the division without defendant's consent; and it granted other relief. Although prohibitory in form, it was affirmative relief

which was the substantive equivalent of a mandatory preliminary injunction directing the plaintiff to turn over management of the division to defendant during the pendency of the action.

Unicon Management was cited favorably in National Association of Letter Carriers v. Sombrotto, 449 F.2d 915, 921 (2d Cir. 1971), where Chief Judge Friendly cautioned that although the traditional function of a preliminary injunction is to preserve the status quo, such "generalities, like 'canons' of statutory construction, cannot be mechanically applied." The Second Circuit in Letter Carriers reversed the District Court's denial of injunctive relief and granted a mandatory preliminary injunction ousting the individual defendants of control of a Local Union and imposing a trusteeship in favor of the plaintiff parent union. Such relief was found to be contemplated by Congress, just as Congress contemplated the granting of preliminary relief in private antitrust cases. See § 16 of the Clayton Act, 15 U.S.C. § 26.

A recent instance of drastic mandatory affirmative relief during the pendency of an action, where an entirely new state of affairs was created, is MCI Communications Co. v. American Telephone & Telegraph Co. (E.D. Pa., December 31, 1974) (Unreported Findings and Opinion*). In that case, District Judge Newcomer granted a mandatory preliminary injunction directing the defendant

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* A copy of such Findings and Opinion accompanies this Memorandum.

AT&T to make certain types of interconnections of its telephone lines with plaintiff's private telephone service.

In granting that injunction, Judge Newcomer had concluded that based on the preliminary injunction record, plaintiffs had shown a substantial probability of success in ultimately demonstrating that AT&T had violated the Federal Communications Act and orders of the Federal Communications Commission (p. 21).

In addition to his findings concerning private injury, he found public injury. First, he found that if plaintiff, one of the few competitors of AT&T in the field of interstate private line service, were to go out of business or even if only its growth were stunted because of the lack of interconnections the public would be "denied the benefits of vigorous competition for the private line market". Second, he found that the public interest would be served by the preliminary injunction, because any success by AT&T in disobeying the Commission's orders "would deter potential competitors of AT&T in the provision of private line services". Third, he found that the injunction would serve to uphold the integrity of the Communications Act and the Commission's orders and regulations under that Act. (p. 20).

In the MCI case, although plaintiff previously had been able to make some less desirable arrangements with some AT&T subsidiaries, AT&T had broken off negotiations and refused to

deal in the manner sought by plaintiff*, after two years of effort by plaintiff to obtain an agreement with AT&T for the types of interconnections and service which the Court's preliminary injunction ultimately directed AT&T to provide during the pendency of the action**. In addition, the Court's order (p. 41) directed AT&T to vote its shares of stock in various subsidiaries to aid in effectuating the required interconnections and service.

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* As more fully discussed in Point II, this bears pertinent analogy to the circumstances here. As SCM intends to prove at the hearing, since 1963 Xerox has repeatedly refused to grant SCM's requests for patent licenses relating to plain paper office copying. Xerox was only willing to grant SCM patent licenses relating to coated paper office copying, a less desirable form of copying. Xerox's "offers" in 1970 and 1973 of licenses as to a few of its plain paper office copying patents embodying old technology were illusory (see Amended Complaint ¶27(o)). In any event, those offers to license (which were in no way comparable to the licenses requested by SCM) were wholly insufficient to meet the technological needs of a present or future potential competitor.

If Xerox's refusals to deal with SCM are shown on the hearing to be likely antitrust violations, the Court's equitable power to remedy the situation during the pendency of the action cannot be doubted.

See also the later discussion in text concerning the irreparable injury flowing from the "Sword of Damocles" which Xerox holds over any of SCM's plain paper office copying activities or investments, if the granting of such patent licenses are not directed during the pendency of the action, or the Court does not direct its substantive equivalent, a prohibitory preliminary injunction restraining Xerox from threatening to enforce or enforcing its patents against SCM.

** A duty to deal or serve may be imposed on a monopolist because of the unavailability of alternative sources of supply. See Handler, Twenty-Five Years of Antitrust at 365-366, 368 (1973).

See also the authorities cited in Philadelphia World Hockey Club, 351 F. Supp. 462, 514 (E.D. Pa. 1972) for the principle that:

"Preliminary injunctions have often been granted against dominant companies to keep open the source of supply to their competitors because the dominant concern was breaching the antitrust laws in its refusals to deal with competitors."

SCM's Memorandum in Opposition to Xerox's Contention that as a Matter of Law Injunctive Relief is Not Available

A highly pertinent antitrust example of the existence and exercise of the Court's power to create a new state of affairs and new rights during the pendency of one action by way of a preliminary injunction order on findings of likelihood of violation and irreparable injury, is Judge Higginbotham's decision in Philadelphia World Hockey Club, Inc. v. Philadelphia Hockey Club, Inc., 351 F.Supp. 462 (E.D. Pa., 1972) (hereafter "Philadelphia World Hockey Club").

In that case (more fully discussed below with respect to the concept of irreparable injury as well as in Point IV relating to paragraphs 49, 51 and 53 of the Amended Complaint), the Court's preliminary injunction order restrained the defendant National Hockey League (NHL), its member clubs and teams, from further prosecuting, commencing or threatening to commence any legal proceeding to enforce the exclusive rights provided to the NHL teams in the "reserve clause" of the standard NHL player contract. Although Judge Higginbotham doubted that plaintiff World Hockey Association (WHA) would ultimately succeed on its claims that the defendant violated Section 1 of the Sherman Act, he did not doubt its ultimate success on its claim that the defendant violated Section 2 of the Sherman Act.* (351 F.Supp. at 504).

* Judge Higginbotham's decision did not constitute a holding as a matter of law that the defendants violated Section 2 of the Sherman Act because, despite the very great showing of likelihood that the NHL had violated that statute, there still remained some genuine issues as to material facts. 351 F.Supp. at 467.

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In granting the preliminary injunctive relief against any attempted enforcement of the reserve clause, he held that although the defendant NHL had not prevented the birth and had not caused the demise of its infant competitor the WHA, "the operation of the antitrust laws need not be delayed until one is trying to resurrect the dead; these laws are designed to preserve living competitors." (351 F.Supp. at 510). In allowing players to play for the WHA in breach of the "reserve clauses" of their NHL contracts (seven of whom had been previously sued and 200 or more of whom had not been sued), and in allowing the WHA and its teams to negotiate and enter into contracts with NHL hockey players who were tied contractually to NHL teams by reason of that reserve clause, the Court drastically changed the state of affairs and rights which existed at and prior to the commencement of the action. The NHL teams' contractual rights to their players were, in effect, suspended during the pendency of the lawsuit. This affirmative relief was granted by means of a prohibitory injunction against the defendants from threatening to commence, commencing or further maintaining any action to enforce their pre-existing contractual rights under the reserve clause.

Another pertinent example from the antitrust field is United States v. Aluminum Company of America, 1962 Trade Cas. ¶ 70,419 (E.D. Mo.), where preliminary injunctive relief was granted to anesthetize any possible anticompetitive effects resulting from an acquisition which had occurred almost two and one-half years before

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Defendant Alcoa had acquired all of the stock of Cupples pursuant to an agreement in November, 1959 which was consummated in January, 1960. Some 15 months later, in April, 1961, the United States commenced an action claiming that the acquisition violated Section 7 of the Clayton Act. And then, another 14 months later, in May, 1962, the Government filed its motion for a preliminary injunction, which was granted in July, 1962.

The Court concluded that the Government had "raised serious and substantial questions on the 'line of commerce' on the vertical aspect of the merger where the probable future effect may be substantially to lessen competition or to tend to create a monopoly". Alcoa, the acquiring company, was a seller of aluminum; and the acquired company, Cupples, was a purchaser of aluminum and fabricator of aluminum windows, doors and related products. After weighing the possible injuries to the parties flowing from either a denial or issuance of the preliminary injunction as fashioned, the Court granted the preliminary injunction. That injunction, in substance, froze the situation. Although the preliminary injunction contained provisions which allowed Alcoa to continue to own the Cupples stock, it anesthetized Alcoa's control of Cupples by the various mandatory and prohibitory provisions of the injunction. By this means, the possible unlawful effects of the possibly unlawful acquisition were restrained during the pendency of the action.

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The mandatory relief granted by Judge Meredith in the Alcoa-Cupples case included directions (1) that Cupples continue to exercise independent judgment and activity in its operation; (2) that Cupples continue to publicize its name in connection with its products; and (3) that Cupples and Alcoa maintain separate sales organizations and separate pension plans. The prohibitory relief included restraints against any further consolidation or commingling of assets; against transfer of any employees and other activities; and against Alcoa obtaining any financial or other benefits from its ownership of the Cupples stock.*

For a period of seven months prior to the time of the filing of the Government's motion for preliminary injunction, Alcoa was in the course of constructing a new plant for the fabrication of aluminum windows, doors and other related products. The Court found that Alcoa's decisions to have the plant financed by itself (rather than Cupples) and to identify it as an Alcoa plant were made to avoid the possibility of its risk that, if it were a Cupples' owned plant, it would be subject to divestiture in the

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* There is a pertinent analogy here. To the extent Xerox's purchases and aggregation of patented and unpatented (secret) technology, stock or other assets are found to be likely violations of the antitrust laws, Xerox's continuing exclusive control--and the anti-competitive effects of such control during the pendency of the action--should be anesthetized to the maximum extent possible. To take only one example insofar as SCM is concerned, the anticompetitive effects of Xerox's exclusive control over patented and unpatented technology may be anesthetized by requiring Xerox to grant SCM access to that technology and to grant a license for it.

event that that Court ultimately found the acquisition to be unlawful. Although the Court denied the Government's request for a preliminary injunction order directing transfer of the plant's title to Cupples, the Court mandatorily ordered that the new plant be operated by Cupples and that its products be advertised and sold as Cupples products.

Similarly, in United States v. American Technical Industries, Inc., 1974 Trade Cas. ¶74,873 (M.D. Pa. Jan. 8, 1974), the Government challenged under § 7 of the Clayton Act an acquisition that had been consummated 21 months before suit was filed. The Court directed, on a motion for preliminary relief, that the merger be "frozen" as of the commencement of suit, and that further consolidation be enjoined.

This is the same as the "hold-separate" preliminary injunction orders granted in many cases where acquisitions have been challenged under Section 7 of the Clayton Act where the court has permitted the consummation of the transaction, but has required that the acquired company be independently controlled and operated, and that the acquiring company be restrained from obtaining any benefits of the acquisition during the pendency of the action -- and thus, during the pendency of the action, any possible anti-competitive effects which might flow from the challenged acquisition would be prevented.*

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* E.G., United States v. Aluminum Company of America (Rome Cable), 1960 Trade Cas. 76, 830 (N.D.N.Y.); United States v. Brown Shoe Co. Inc., 1956 Trade Cas. 71,109 (E.D. Mo.).

Thus, considering the public interest and the function of the preliminary injunction in preserving the status quo in whatever way it may be viewed, there is no basis for Xerox's contention that as a matter of law the Court cannot during the pendency of the action grant affirmative relief, either prohibitory or mandatory, to prevent any further harm to the public, or to SCM (as one of Xerox's few potential or actual plain paper office copier competitors) which flows from Xerox's alleged past, present and future violations and their effects. Xerox cannot contend that there are faits accomplis whose effects are as a matter of law immune from preliminary injunctive relief. Xerox cannot contend that its continued ownership and exclusive control of patented and unpatented technology or stock or other assets, if likely antitrust violations, are immune from preliminary injunctive relief. And, Xerox cannot contend that any new threatened acts and their effects (as described, for example, in the extracts from Xerox's 1972 Long-Range Plans submitted to the Court on oral argument on December 7, 1973) if found unlawful, are immune from the sanctions of preliminary injunctive relief.

In short, where a sufficient showing is made concerning the likelihood that the defendant is violating the antitrust

laws, it cannot be said as a matter of law that the status quo is a state of affairs where the defendant is permitted to continue the acts constituting that likely violation or that the effects of a likely past violation should be permitted to persist. A court of justice should not, and need not countenance such a situation. During the pendency of the action the Court possesses power, which it may exercise upon a proper showing, to change the state of affairs and rights of the parties which had existed at and prior to the commencement of the action. The Court may achieve this with either mandatory or prohibitory relief, since as is pointed out in 78 Harv. L. Rev. at 1062, and in analyzing many cases we have studied, the distinction between mandatory and prohibitory relief is often only a matter of form. For example, the Unicon case, discussed above, in form restrained plaintiff from denying defendant control of a division; in substance it divested plaintiff of control and mandated that it be given to defendant for the pendency of the action. Similarly, a mandatory injunction requiring the defendant to deal with the plaintiff on certain conditions (e.g., sell products or grant a patent license) may be the substantive equivalent of a prohibitory injunction against defendant from refusing to deal with plaintiff on cer-

tain conditions*.

Also, the Court is not prohibited from granting such relief because it allegedly involves the granting of the "equivalent of ultimate relief on the merits" (Xerox's Memorandum of December 4, 1973 at p. 5). Preliminary injunctive relief here is not "ultimate" relief since, firstly, it operates only until final adjudication here, and secondly, it does not moot the ultimate adjudication. (See 78 Harv. L. Rev. at 1058-59.) In a number of the cases discussed in this Memorandum, the relief granted during the pendency of the action was the same nature of relief which the plaintiff sought to secure ultimately, on a permanent basis. E.g., Gulf & Western; MCI; Philadelphia World Hockey and Ingersoll-Rand and Wilson Sporting Goods, cited infra.

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* See, for example, the cases cited by Judge Higginbotham in Philadelphia World Hockey Club v. Philadelphia Hockey Club, 351 F.Supp. 462, 514 (E.D. Pa. 1972) as to injunctions against refusals to deal.

The substantive equivalent which often exists between injunctive relief granted in mandatory or prohibitory form is also illustrated in the prohibitory decrees in the classic 1911 Standard Oil and American Tobacco cases, which effectively required divestiture. In more modern times, divestiture and related relief in Clayton Section 7 and Sherman Act Section 2 monopoly cases have often been mandatory in form. See, e.g., United States v. El Paso Natural Gas, 376 U.S. 651, 662 (1964) [Section 7 of the Clayton Act], International Boxing Club v. United States, 358 U.S. 242 (1959) [Section 2 of the Sherman Act].

POINT II

THE NATURE, SHOWING AND WEIGHT OF THE FACTORS OF PUBLIC AND PRIVATE IRREPARABLE INJURY TO BE CONSIDERED IN DETERMINING A MOTION FOR PRELIMINARY INJUNCTION

A. The General Nature of "Irreparable Injury" and its Interrelationship with Other Factors

In the weighing and balancing involved in determining a motion for preliminary injunction, it is well established that the burden of showing probable ultimate success is less when the "balance of hardships" tips decidedly towards the party requesting the temporary relief. The "balance of hardships" involves considering and weighing the harm (to the plaintiff and public) if the injunction does not issue, and the harm (to the defendant) if the injunction does issue, including the extent to which any possible harm to the defendant can be secured by bond. Where the "balance of hardships tips decidedly towards the plaintiff . . . it will ordinarily be enough [to grant a preliminary injunction] that the plaintiff has raised questions going to the merits so serious, substantial, difficult and doubtful as to make them a fair ground for litigation and thus for more deliberate investigation ." Hamilton Watch Co. v. Benrus Watch Co., 206 F.2d 738, 740 (2d Cir. 1953) (Frank, J.) (a private antitrust case under Section 7 of the Clayton Act). See also Gulf & Western, 476 F.2d at 692-693 and authorities there cited.

Conversely, the greater the plaintiff's showing of

likelihood of ultimate success, the lesser the showing required of irreparable injury to justify the issuance of preliminary injunctive relief. Similarly, the greater the likelihood that the plaintiff will ultimately prevail, the lesser the weight to be given to the possible detriment to the defendant caused by the preliminary injunction order.

As Judge Pollack expressed these propositions, in Heldman v. United States Lawn and Tennis Association, 354 F.Supp. 1241, 1250 (S.D.N.Y. 1973):

> "These variables are dependant. If the plaintiffs, for example, can demonstrate a great probability of ultimate success on the merits, then the severity of harm which need be shown might decrease. But where the injury to defendants produced by an injunction would be great, the plaintiffs must demonstrate more persuasively the likelihood of irreparable injury and of success on the merits at trial."

See also 78 Harv. L. Rev. at 1056.

The question whether irreparable injury exists to the plaintiff and the public, and if so, its nature and extent must be considered in the context of the particular facts and circumstances of the case in the light of the showings made on the hearing of the motion. As aptly put by Judge Higginbotham in Philadelphia World Hockey Club, 351 F.Supp. at 514:

> "In determining whether the parties are sustaining irreparable injury [the court] must view the evidence through a lens opened to the 'pragmatic factual approach' and set on the 'commercial realities' required by the antitrust laws."

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Xerox must for the present purpose of testing its legal objections, concede the truth of SCM's allegations regarding the mosaic of its antitrust violations and their unlawful effects, as portrayed in the Amended Complaint. Therefore it would seem to follow that it cannot be concluded as a matter of law in advance of the hearing that the public and SCM (as one of Xerox's few potential or actual plain paper office copier competitors), are not suffering and are not threatened with continuing irreparable injury by reason of those alleged violations and their unlawful effects.* For example, Xerox's perpetuation of world-wide control over the skill and technology of plain paper office copying and its exclusion and restraint of SCM, if proved, undeniably would entitle SCM to equitable relief preventing the irreparable harm flowing from such prior and continuing exclusion and restraint.** The same kind of irreparable injury is inflicted during the pendency of the action as would be inflicted after final adjudication of the alleged violations, and, on a proper showing at the hearing, entitles SCM to preliminary relief.

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* We do not understand Xerox's request (Xerox's Memorandum of December 4, 1973 at pp. 4-5 and 47-48) and the Court's direction for this briefing to encompass any contention by Xerox that SCM's First Claim does not state a claim entitling SCM to some form of permanent injunctive relief, because of the existence of some kind of irreparable injury. Xerox has never pleaded or made such a contention.

** See the authorities cited in Point IV concerning permanent relief after final adjudication.

B. Irreparable Injury Because of the Inadequacy of Money Damages.

In Danielson v. Local 275, F.2d (2d Cir. 1973), Judge Mulligan stated and held:

> "Irreparable injury is suffered where monetary damages are difficult to ascertain or are inadequate.... A construction contract is characteristically one where a breach or interference with performance results in damages which are not readily or accurately determinable.... In this case assuming that the Unions would be responsible for damages. . . the amount of damage attributable specifically to union activity is clearly difficult to assess and measure." (Citations Omitted) (Slip Opinion at pp. 3900-01).

As Judge Mulligan held, the difficulty or uncertainty in computing or ascertaining the amount of damages is a hallmark of determining the inadequacy of damages and therefore irreparable injury. See Bergen Drug Co. v. Parke Davis & Co., 307 F.2d 725 (3d Cir. 1962) (impossible to estimate or compute damages to drug wholesaler caused by loss of good will when cut off from supply of name brand drug); McKesson & Robbins v. Charles Pfizer & Co., Inc., 235 F.Supp. 743, 749 (E.D.Pa. 1964)(same).

SCM has alleged that Xerox's past and future wrongdoing and their unlawful effects have excluded and restrained, and will continue to exclude and restrain SCM from full and fair competition with respect to plain paper office copier activities. Therefore, assuming for present purposes the truth of

those allegations (or at least the greatest possible likelihood of their truth), it cannot be doubted that the profits SCM would have earned in the absence of the wrongdoing are difficult to assess. Therefore, such damage constitutes irreparable injury, because of the inadequacy of money damages under the long-established principle most recently expressed by the Second Circuit in Danielson, as quoted above.

The uncertainty concerning the amount of damages or the difficulty in computing or ascertaining the amount of damages -- and therefore the existence of irreparable injury -- has been frequently alluded to by the Supreme Court in a number of different antitrust factual contexts, as well as in other kinds of unfair competition cases.

In Story Parchment Co. v. Paterson Co., 282 U.S. 555 (1931), the Court reversed the decision of the Court of Appeals and affirmed the treble damage judgment awarded in the district court. In that case, plaintiff alleged that by concerted price-cutting the defendants had conspired to monopolize the vegetable parchment business in violation of the Sherman Act so as to exclude plaintiff and destroy its business (282 U.S. at 559-562). The Court of Appeals had held that plaintiff's damages were uncertain and that therefore plaintiff was not entitled to judgment (37 F.2d 537, 1st Cir. 1930). In reversing

that decision, the Supreme Court held on the facts there presented:

> "It is true that there was uncertainty as to the extent of the damage, but there was none as to the fact of damage; and there is a clear distinction between the measure of proof necessary to establish the fact that petitioner had sustained some damage, and the measure of proof necessary to enable the jury to fix the amount. The rule which precludes the recovery of uncertain damages applies to such as are not the certain result of the wrong, not to those damages which are definitely attributable to the wrong and only uncertain in respect of their amount." (282 U.S. at 562; see also 562-566).

In the oft-cited case of Bigelow v. RKO Radio Pictures, 327 U.S. 251 (1946) the Court also reinstated a treble damage award. In that case, plaintiff alleged that defendant conspired in violation of the Sherman Act, with respect to a scheme of feature films distribution, which unlawfully discriminated against plaintiff to its injury. The only question before the Supreme Court related to the sufficiency of the evidence on damages (327 U.S. at 253-254).

Speaking for the Court, Chief Justice Stone first observed that "even where the defendant by its own wrong has prevented a more precise computation, the jury may not render a verdict based on speculation or guesswork." But, as he held, a "jury may make a just

and reasonable estimate of the damages based on relevant data," including probable and inferential proof as well as direct and positive proof; and that the "most elementary conceptions of justice and public policy require that the wrongdoer shall bear the risk of the uncertainty which his own wrongdoing has created" (327 U.S. at 264-265).

Most significantly for our purposes here, as Chief Justice Stone went on to say, such elementary conceptions of justice and public policy are not "restricted to proof of damages in antitrust suits, although their character is such as frequently to call for its application" (327 U.S. at 265). Thus, in his and the Court's view, proof of the amount of damages in antitrust cases frequently involves uncertainty, and therefore requires the invocation of the rule that the wrongdoer bears that risk when the Court attempts to award money damages. As we have shown, the existence of such uncertainties as to amount of damage also renders the damage "irreparable" for the equitable purpose of granting preliminary or permanent injunctive relief.

In Zenith Radio Corp. v. Hazeltine, 401 U.S. 321,342 (1971) there was a market exclusion resulting from the unlawful practices of a patent pool. The Supreme Court said that the "proceedings before us put in stark relief the difficulties of proving the fact and the amount of damages during a period in the immediate past" (401 U.S. at 342) (emphasis supplied).

The same points concerning the uncertainties in measuring the amounts of damage in antitrust cases, and therefore, the irreparable character of the injury involved, may be drawn from Haverhill Gazette Co. v. Union Leader Corp., 333 F.2d 798, 804, 805-806 (1st Cir. 1964)*. In that litigation, liability had been tried first and has resulted in a permanent injunction which was affirmed on a prior appeal. The issue of damages was tried separately before a master, whose report was confirmed by the district court. Plaintiff appealed on the ground that the damage award was grossly inadequate. The Court of Appeals reversed and remanded for a new trial on damages (333 F.2d 798).

In doing so, the First Circuit found that the master had insufficiently taken into account that Court's earlier caveats in Momand v. Universal Film Exchanges, 172 F.2d 37, 43 (1st Cir.,1948), cert. denied 336 U.S. 967 (1949) among other things that:

> "in an antitrust suit, covering as it must many imponderables, rigid standards of precise proof would make a plaintiff's task practically hopeless."
> (333 F.2d at 804.)

* This decision was relied on heavily by Xerox in its opposition to severance of liability from damages (Memorandum of Dec. 4, 1973, pp. 23-24), and was referred to by the Court in its Memorandum Decision of Jan. 3, 1974 at p. 7.

The cases discussed show that past damages in anti-trust cases are virtually inevitably subject to some uncertainty. Surely future damage is if anything even more uncertain. That the "many imponderables" involved here make damages difficult to measure, and that any future harm SCM can demonstrate at a hearing is therefore irreparable, cannot be denied.

C. The Irreparable Injury to the Public.

The public injury flows from the deprivation of the opportunities and benefits of competition and the burdens of Xerox's monopolistic and anticompetitive practices.*

Here, where SCM has a "dual role" as a private party and private attorney general, and where the challenged violations are of great magnitude and far reaching consequences, the standards to be applied are those used in Government suits (Gulf & Western, 476 F.2d at 699).. Therefore the irreparable injury to the public is the "paramount" factor. A preliminary injunction may issue even where the only showing as to violation is that there is a serious and important question which requires further investigation. Gulf & Western, 476 F.2d at 692-93 and authorities there cited.

In a Government case, the Government need not prove the existence of irreparable injury to the public on a motion for preliminary injunction. Its probable existence is presumed if a showing of likely violation has been made or, at minimum, a serious question requiring further investigation has been raised. The presumption of irreparable harm to the public arises

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* We have found no authority to suggest that a threatened injury to the public from a threatened or probable violation of the antitrust laws is not irreparable because it is remediable by an award of monetary damages.

because the antitrust laws express the public policy of the nation in favor of the promotion of competition, and the threatened violation of those laws necessarily, in itself, sufficiently threatens to irreparably injure the public so as to justify preliminary injunctive relief. It is unnecessary to demonstrate the precise manner in which violation of the law will result in such injury. "It is sufficient to show only that an act or threatened act is within the declared prohibition of Congress." United States v. Ingersoll-Rand, 218 F.Supp. 530 (E.D. Pa.1963), 544-545; aff'd, 320 F.2d 509, 523-524 (3rd Cir. 1963); United States v. American Technical Industries, 1974 Trade Cas. ¶74,873 at p.95,870-71 (M.D.Pa.); United States v. Wilson Sporting Goods, 288 F.Supp. 543, 567 (E.D. Pa. 1968). See also, Preliminary Relief for the Government Under Section 7 of the Clayton Act, 79 Harv. L. Rev., 391, 399-400 and other decisions cited therein (1965).

The very exposition of the anti-competitive consequences of an alleged antitrust violation* constitutes an exposition of irreparable injury to the public which will continue if not restrained. (See Gulf & Western, at 693-695, 698-699).

Judge Newcomer's findings in the MCI case (p. 20) dealing with the Federal Communications Act, express the same

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* As has been pointed out, 79 Harv. L. Rev. at 398-401, the government often introduces proof concerning, and some courts continue to express, the kinds and nature of public irreparable injury. Such proof and findings are probative at the same time, of the anticompetitive effects of the challenged transactions and therefore, are probative of the greater likelihood of success, warranting more stringent preliminary injunctive relief.

kinds of probable public irreparable injury. As previously discussed, he found that the possible demise or even the stunting of the growth of one of AT&T's few competitors during the pendency of the action would deny the public the benefits of vigorous competition in the private telephone line market. He also found that there would be public injury absent preliminary injunctive relief, because potential competitors would be deterred from entering into competition with AT&T as a result of AT&T's success in acting unlawfully.

Thus, in this case, if SCM at the hearing can prove its allegations of Xerox's acts in violation of the antitrust laws, and the effect of those acts, it will have proved sufficient irreparable injury to the public to warrant a preliminary injunction.

D. Other Aspects of Irreparable Injury Based on the "Pragmatic Factual Approach" set on the "Commercial Realities"

In following a pragmatic factual approach to the ascertainment of relative irreparable injury to plaintiff and defendant,,in Philadelphia World Hockey, Judge Higginbotham viewed at great length the growth and the means utilized by the NHL in becoming the dominant, if not monopolistic factor in professional major league hockey. He also viewed the recent birth and incipient growth of its infant competitor, the WHA. He found that the essential element in carrying on the business of major league

professional hockey is players of various degrees of professional caliber.

He found that by reason of the NHL's reserve clause, players who were bound to the NHL under that clause were bound either in perpetuity, or at least for three years; and that in either instance those restrictions were unreasonable. He found that the inability of those players to play for WHA teams threatened great harm to the WHA's possible competitive efforts. In granting the injunction during the pendency of the action against the NHL's enforcement or threatened enforcement of that reserve clause, he found that the possible harm to WHA was far greater if the injunction did not issue, than the harm ultimately imposed on the NHL in the unlikely event the NHL were ultimately to prevail on the merits.

As Judge Higginbotham viewed it, if the preliminary injunction were not granted, the injury to the WHA "might very well be the loss of any place in the gallery of major league hockey competition." In contrast he said "if the NHL sustains a loss by the preliminary injunction herein being granted, the NHL would still have both prominence and first place in this gallery, and even when losing, the diminution of its relative stature would almost be minor . . . ." (351 F. Supp. at 514.)

Similarly, here, assume the Court were to mandatorily direct during the pendency of the action that Xerox grant patent

licenses and access to SCM with respect to all or some of its patented and unpatented (secret) technology including new technology which threatens to obsolete existing copiers, i.e. to surrender the opportunity to enforce the exclusive rights under its patents against SCM and to share its unpatented technology during the pendency of the action. Assume also that the Court prohibitorily restricted Xerox from enforcing alleged restrictive agreements, making qualified technical people more available to competition and possibly reducing Xerox's alleged 95% hold on the world's xerographers. On such assumption, as with the NHL, Xerox would still have "prominence and first place" and "the diminution of its relative stature would be almost minor." But absent such preliminary relief, the injury to SCM "might very well be the loss of any place in the gallery of [plain paper office copier] competition."

Unquestionably, in view of the alleged enormous lead which Xerox possesses as to technology, manufacturing and marketing which it allegedly unlawfully secured and is constantly enlarging, even the most stringent preliminary injunctive relief granted in this case cannot cause Xerox to lose its first and dominant place with respect to plain paper office copiers. But it can begin for SCM to '"effectively pry open to competition a market that has been closed [to it] by defendant's [alleged] illegal restraints'", Zenith Radio Corp. v. Hazeltine, 395 U.S. 100,133 (1969). Although the Court in that case was talking about the equitable power on a permanent injunction, perforce it

applies to the equitable power on a preliminary injunction as well.

In Philadelphia World Hockey Club, the NHL claimed that the broad preliminary injunctive relief against the reserve clause was not justified in view of the fact that its teams had commenced only five suits against seven "superstars" who were contractually bound by it; and that in fact, some 200 other players had breached the reserve clause; had signed contracts with, and were playing for WHA teams; and had not been sued. In this regard, Judge Higginbotham stated and held:

> "The NHL emphasizes that it has filed only five suits and then only against "superstars". But its selective enforcement of the reserve clause against key individuals gives it no more standing than one who pursues selective price fixing for only a few products. If the NHL is permitted to selectively enforce the reserve clause against players whose contracts expired on September 30, 1972, then the WHA will always be under the Sword of Damocles. It will never know when one of its promising players will be legally beheaded from active WHA competition because the NHL has dropped the sword and enforced the reserve clause." 351 F.Supp. at 515-6.

Here, too, Judge Higginbotham's conclusion bears pertinent analogy to the kind of proof which SCM plans to present at the preliminary injunction with respect to Xerox's enforcement of its patent rights. Xerox's counsel has suggested in chambers that SCM might go ahead and use any of Xerox's patented technology and that the threat of harm to SCM would arise only when Xerox commences a patent infringement action. But in view

of Xerox's past patent infringement litigations against a few companies Xerox considered to be possible viable competitors (as we plan to show on the evidence at the hearing), the same "Sword of Damocles" hangs over SCM's head if it makes substantial investments and engages in other varying activities in attempting to develop, manufacture and market copiers in competition with Xerox, where the potentiality of that kind of protracted and expensive litigation may be involved. It can never know when Xerox may try to behead it. Effective competition with Xerox is thus threatened, just as it was threatened in the World Hockey litigation.

If in fact there is a sufficient showing that any attempted enforcement of its patents constitutes an antitrust violation, the preliminary injunction can protect SCM against any threat of proceedings during the pendency of the action.

Beyond that, SCM plans to show at the hearing that the ability to market an unlicensed product where there is a threat of patent infringement, is an inhibiting factor in marketing the product, and therefore an unlawful anti-competitive restraint. The threat of such patent enforcement is itself an antitrust violation. Among other things, the marketer has to indemnify his customer from any possible infringement proceedings against it. Additionally, customers are not likely to be willing to be put into the middle of a possible litigation, even

nominally, if indemnified. The development by SCM of a line of plain paper office copiers sufficiently sophisticated to compete with those marketed by Xerox will require the commitment of substantial resources and large sums of money. For SCM to undertake such a commitment during the pendency of the action without preliminary injunctive relief in the face of the threat of patent enforcement by Xerox and its attendant anticompetitive restraint might very well be economic suicide. A decision by the Court that SCM is likely to establish its claims against Xerox substantially reduces that risk to manageable proportions. See 79 Harv. L. Rev. at 400 where it is pointed out that a comparison of the available decisions on preliminary injunctions with the results of final trials "suggests general consistency between preliminary trial findings and trial court results."

The kinds of anti-competitive restraints which are placed on a marketer of a product which faces the potentiality of patent litigation has been referred to in Blonder Tongue v. University of Illinois Foundation, 402 U.S. 313, 339, 342, 343 (1971) where the Court referred to competitive disadvantages placed on alleged infringers by the inability or unwillingness to defend a protracted and expensive litigation, possible harrassment, the risk of not surviving, and many of the "economic consequences attending other monopolies". Where, as it is alleged here, Xerox possesses a patent arsenal of more than 1,400 U.S. patents and hun-

dreds of new applications, and where it time and again has expressed the existence of patent dominance over plain paper office copying, these kinds of considerations are multiplied a thousandfold for every potential or actual competitor, particularly in view of the manner in which Xerox has acted in the past.

In sum, in determining whether to grant a preliminary injunction, and the nature and extent of that injunction, " a pragmatic factual approach" must be followed in viewing the "commercial realities" of the business involved in order to determine the relative effects, harms, benefits to the public, the plaintiff and the defendant on the issuance or denial of preliminary injunctive relief. This factual approach requires hearing the evidence submitted by the parties and cannot be decided as a matter of law in advance of that hearing.

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E. Additional Considerations Relating to Protecting the Court's Ability to Grant Meaningful Relief to Plaintiff and in the Public Interest, if and at Such Time in the Future Plaintiff's Claims Are Adjudicated in its Favor.

SCM has contended that without an early final adjudication of liability or alternatively an early adjudication of the preliminary injunction motion, Xerox's monopoly position and its anticompetitive practices allegedly unlawful under Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act, will become increasingly injurious to present and prospective competitors and more immune from ultimate judicial remedies. (See this Court's Memorandum Decision of Jan. 3, 1974 at p. 7.)

An initial assumption must be made in answering the question whether, in the absence of any preliminary injunctive relief during the pendency of the action, defendant's allegedly unlawful conduct, and the effects of its conduct, will become more immune from ultimate judicial remedies which are meaningful to the plaintiff and to the public. The assumption involved is that the ultimate adjudication at some date in the indeterminate future after plenary trial and appeal, will be in favor of plaintiff on its claims against the defendant. In other words, at such time in the future as plaintiff wins, will the permanent relief granted be as meaningful to plaintiff and the public without the issuance of a preliminary injunction during the pendency of the action, as it would be if that preliminary

injunction had been issued? See 78 Harv. L. Rev. at 1056 and 1058 where it is concluded that the court's function on a preliminary injunction is to determine "how best to preserve or create a state of affairs" so that it will be able at the conclusion of the trial to award "meaningful" or "effective" relief to either party.

We have already discussed that irreparable injury occurs during the pendency of the action when, on final adjudication in plaintiff's favor, there is uncertainty in the measurement of the amount of monetary damages suffered by the plaintiff by reason of the unlawful conduct and unlawful effects which occur during the pendency of the action. In such circumstances, to the extent preliminary injunctive relief can restrain or minimize such unlawful conduct and unlawful effects, the effectiveness of the ultimate remedies will be enhanced. Absent that preliminary injunctive relief, because of the inadequacy of the remedy of monetary damages, the effectiveness of final relief has been impaired.

We have also discussed the irreparable injury to plaintiff and to the public necessarily flowing during the pendency of the action if it is finally determined that the defendant was acting in violation of the antitrust laws during the pendency of the action, but its conduct was not restrained because a preliminary injunction was not issued. In this regard,

the failure to issue a preliminary injunction renders the Court's final remedies less meaningful or effective because those remedies can never obliterate the past happening of that conduct and those effects during the pendency of the action.

For example, if it is ultimately found to be true as alleged that as a result of Xerox's acts and threatened acts there is and will continue to be an exclusion or restraint of competition, by the time of the final adjudication plaintiff may not survive to obtain the benefits of any final permanent injunctive decree; or if its competitive growth is stunted during the pendency of the action, its ability to secure the benefits of such final decree will be diminished.

Moreover, the irreparable injury to the public between now and the entry of a final permanent injunctive decree, cannot, without preliminary injunctive relief, ever be remedied adequately. Indeed, if it is ultimately determined that Xerox's acts and threatened acts have the severe anticompetitive effects, as are alleged, on SCM and other potential and actual competitors, it must be recognized that with the possible exception of IBM, as the situation now exists, there may be no remaining other competitors and therefore the effectiveness of the final decree will have been diminished to the extent that competitors drop out or potential competitors do not enter plain paper office copying activities during the interim period.

Using the examples furnished in the cases involving major league professional hockey, private telephone line service and other situations, we have also already shown that a preliminary injunction is required upon a sufficient showing to protect the Court's ultimate final remedies. In those situations, preliminary injunctive relief was designed to restrain defendants from increasing their already existing competitive lead and great economic power, and affirmatively to create conditions where the plaintiff might be able to enjoy the benefits of a final permanent injunctive decree, assuming the court ultimately adjudicated the plaintiff's claims in its favor against defendant.

Lastly, we turn to the need for preliminary injunctive relief so that the effectiveness of the Court's final permanent injunctive remedy will not be impaired as a result of the additional complexities and difficulties engendered by intervening events. It must be assumed on this motion that it will be ultimately determined to be true that Xerox possesses enormous technological, manufacturing and marketing power (here and abroad, alone and in concert with others such as Rank-Xerox), and unlawfully acquired, increased and is exercising those powers by reason of its initial stranglehold over technology. If so, then if Xerox is permitted to continue to exercise all of those powers during the pendency of the action, the ability of the Court to fashion an effective final remedy will be diminished; and the

time thereafter in which such a remedy can have the effect of creating full and fair competition will be further prolonged -- thereby diminishing the effectiveness of that remedy.

Although a monopolization case such as this involves this type of problem even more gravely, the problem has been most frequently illustrated in the recent past in cases involving preliminary injunctions where acquisitions of stock or assets have been challenged by the government or private parties as a violation of Section 7 of the Clayton Act, where it need only be shown that the acquisition has the probable effect of substantially lessening competition or tending to create a monopoly in any line of commerce.*

Embedded in the "hold-separate" type of preliminary injunctions in acquisition cases** is the concept that the intermingling of assets and activities of the acquired and the acquiring company during the pendency of the action will reduce the effectiveness of the Court's ultimate remedy in the event plaintiff finally prevails. Preliminary "hold-separate" orders,

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* Of course, an acquisition agreement may also violate Section 1 of the Sherman Act if it is shown (by proof or under the per se doctrine) that the acquisition in fact unreasonably restrained trade. Likewise, an acquisition may violate Section 2 of the Sherman Act if it is shown (by proof or the per se doctrine) that it constituted an act of monopolization or an attempt to monopolize. Here, SCM alleges that Xerox's acquisitions of patented and unpatented technology, stock of other companies and other assets violated each of those sections of the Sherman Act and Section 7 of the Clayton Act under the standards required as to each.

** See, e.g. Alcoa-Cupples and cases cited in footnote at p.21.

as in the Alcoa-Cupples case discussed supra at 18-21, assure the effectiveness of the final remedy in two ways. First, during the interim period, the acquiring company is denied the possible benefits stemming from its ownership of the acquired company, such as use of its profits, personnel, facilities and advertising, which might enlarge its power to the detriment of other competitors and to the detriment of the public. Second, by anesthetizing the acquiring company's control of the acquired company, the Court is creating a state of affairs which prevents new events and changes during the pendency of the action, thereby facilitating the granting of a final remedy, less complicated and less difficult because of the absence of intervening events. Thus, the effectiveness of the final remedy has been enhanced because it is less likely that in the interim injury will have occurred to others who might thereby be less capable of enjoying the benefits of the final decree.

The same concepts are embedded --but even more so -- in the acquisition cases where a preliminary injunction enjoins the consummation of a proposed acquisition*. A case in point is the El Paso litigation. There, the absence of a preliminary injunction (whether before or, as in Alcoa-Cupples, years after the acquisition) gravely impaired the ability of the court to fashion and promptly implement a meaningful final decree. The El Paso litigation vividly illustrates three points in this regard; first, that in consequence of

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* E.g., Gulf & Western; Ingersoll-Rand; Wilson Sporting Goods, cited supra.

intervening events it is more difficult to fashion an effective remedy for creating competition; second, intervening time and events can permit the defendant to strengthen its hold on a market; and third, that the final remedy is substantially less effective because it takes so much longer to fashion and finally implement.

In 1956, El Paso, a natural gas pipeline company operating in the Southwest and California, acquired the stock of Pacific Northwest, a new natural gas pipeline company which had just been authorized to deliver gas to an adjacent area, the Northwest. After the acquisition, application was made to the Federal Power Commission for authority to merge the two companies.

In July, 1957, the government commenced an action charging that the acquisition violated Section 7 of the Clayton Act. A year later that action was stayed pending completion of proceedings before the Federal Power Commission which ultimately resulted in approval of the merger, which was consummated in 1959.

No application was made by the government or anyone in the Commission proceedings opposing the merger for a preliminary injunction against it; and as a result no restraints were imposed on El Paso as to its control and operation of the assets it acquired.

On appeal from the Federal Power Commission order, after the Court of Appeals affirmed, the Supreme Court

reversed. (California v. Federal Power Commission, 369 U.S. 482, 483-484 (1962); hereafter referred to as the "first El Paso case.") Then, five months later, in 1962, the anti-trust case was tried and resulted in a dismissal of the complaint. On appeal, ("the second El Paso case"), the Supreme Court reversed and directed the District Court "to order divestiture without delay." United States v. El Paso Natural Gas Co., 376 U.S. 651 (1964).

The "third El Paso case" in 1967, and the "fourth El Paso case" in 1969, each reversed the orders entered after protracted and difficult divestiture proceedings. Cascade Natural Gas v. El Paso Natural Gas, 386 U.S. 129 (1967); Utah Public Service Commission v. El Paso Natural Gas, 395 U.S. 464 (1969). It is now anticipated, in view of the fact that the order entered after the third divestiture proceeding was not appealed, that divestiture will occur this year, in 1974, nearly 13 years after the Government challenged the lawfulness of the acquisition involved.

In the fourth El Paso case, in 1969, Chief Justice Warren, commenting on the fact that El Paso's attempt to paralyze competition in the California market started years ago and the Government's action was filed in 1957, said that the "record up to the entry of the present decree shows, as the District Court found, that delay has strengthened El Paso's position" by

strengthening El Paso's hold on the California market and thereby making it more difficult for a new competitor to enter, and by eliminating possible competitive opportunity for Pacific Northwest.

The pertinent lesson of the El Paso litigation is that the many difficulties in fashioning effective relief would be substantially reduced if the anticipated consequences of the antitrust violation were restrained during the pendency of the litigation. Likewise delay before final remedy, without any interim restraints on Xerox's acts and their effects, can only result in strengthening Xerox's hold on plain paper office copying if it is true, as alleged, that Xerox is presently in violation of Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act.

To take but one example in light of the El Paso litigation and the cases issuing preliminary "hold separate" orders, including the Alcoa-Cupples case, we consider, among Xerox's many acquisitions of patents, technology, or other assets or stock, Xerox's acquisition of voting control of Rank-Xerox in 1969. SCM intends to prove at the hearing that Xerox and Rank-Xerox share technology and divide markets instead of competing, in restraint of interstate and foreign commerce. The Court should anesthetize Xerox's voting control of Rank-Xerox to prevent further intermingling of the technology, assets and other activities so as to promote competition during the

pendency of this action, and restrain existing and future competitive restraints on interstate and foreign commerce.

Further, Xerox's power, and its intention during the coming years to change the structure and elements of the plain paper office copier business and to maintain and enlarge its existing technological, manufacturing and marketing power (by introducing new and improved products which will obsolete existing products and make it more difficult to compete, by enlarging its facilities and activities and by other means)* and therefore impair the ability of the Court to grant an effective final remedy, is amply demonstrated in its 1972 Long Range Plans, extracts of which have been previously submitted to the Court at the oral argument on December 7, 1973.

If Xerox goes unchecked by any preliminary injunctive restraints, the Court's final remedy will be impaired because of the greater difficulty to at least restore SCM and other competitors to the relative competitive position which exists today; to enable SCM to survive as a competitor during the interim period; to secure the benefits of a final decree; and ultimately, to create the conditions where full and fair competition can take place with respect to plain paper office copying activities, not only in SCM's interest, but most importantly, in the public interest.

In sum, the injuries which SCM seeks to prevent are of the types which justify preliminary injunctive relief.

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* United States v. Aluminum Co. of America, 148 F.2d 416, 430-431 (2d Cir., 1945).

SCM's Memorandum in Opposition to Xerox's Contention that as a Matter of Law Injunctive Relief is Not Available

POINT III

JUDICIAL POWER EXISTS TO GRANT ALL OR SOME PERMANENT RELIEF AFTER THE HEARING ON A MOTION FOR A PRELIMINARY INJUNCTION

"It goes without saying that ordinarily a permanent injunction cannot be granted on the hearing of an application for a temporary injunction." However, this is not a hard and fast rule; and as a matter of law it is possible for a court to grant permanent relief after a hearing on a motion for preliminary injunction. Standard Oil Company of Texas v. Lopeno Gas Co., 240 F.2d 504, 509-510 (5th Cir. 1957) (the Court's emphasis).

As the Fifth Circuit pointed out in that case, the Supreme Court long ago held that if the evidence presented on a motion for a preliminary injunction shows clearly that the plaintiff has not stated and cannot state a claim upon which final relief can be granted, the court should exercise its power to dismiss the complaint. Analogizing that practice to the modern practice of granting summary judgment when there is no genuine issue as to any material fact, the Fifth Circuit reasoned that when the circumstances warrant, a similar prompt procedure is available for granting permanent relief against the defendant, as is provided against the plaintiff. The Fifth Circuit therefore affirmed the granting of a permanent injunction in favor of plaintiff against defendant after a

hearing on plaintiff's application for a preliminary injunction in that breach of contract case, where the court concluded that there were no genuine issues as to any material fact and that the issues of law should be decided in plaintiff's favor. See also Allegheny Oil Co. v. Snyder, 106 Fed. 764, 770-771 (6th Cir. 1900) and Coty v. Prestonette, Inc., 285 Fed. 501, 516 (1922), reversed on other grounds 254 U.S. 259 (1924), both holding that judicial power to grant permanent relief exists on a motion for preliminary injunction, where there are no controverted questions of fact and the issues of law were determinable in plaintiff's favor.

Therefore, assuming, as it must be assumed, that SCM's First Claim states a claim upon which permanent injunctive relief may be granted (whether as requested in paragraphs 31 through 48 of the Amended Complaint or otherwise), it cannot be concluded as a matter of law at this juncture that this Court lacks any power to grant any relief after a hearing on the merits of SCM's motion for a preliminary injunction - for indeed, the Court possesses power to grant full or partial permanent relief on a proper showing.

POINT IV

THE KINDS AND EXTENT OF RELIEF WHICH CONCEIVABLY CAN BE GRANTED AFTER THE HEARING ON THE PRELIMINARY INJUNCTION MOTION, IN THE LIGHT OF THE FACTUAL AND LEGAL CLAIMS MADE BY SCM

As we have shown, it is the object of the remedy, not the form of the remedy, which concerns Equity. Once a serious question has been raised concerning the likelihood of a violation, and the possible unlawful effects of that violation are ascertained (i.e., the kinds of private and public injuries), Equity may then fashion the most appropriate forms of remedies to prevent or minimize them during the pendency of the action. In that light, the determination of whether to grant preliminary injunctive relief, and if so, the nature and extent of that relief, must await the submissions of the parties at the hearing relating to those matters and the other factors to be considered and weighed.

The essence of SCM's monopolization claim is that:

(1) by the early 1960's Xerox (by its own admission) had secured monopolistic control over the skill and technology of plain paper office copying, in material part by the acquisition from others of the exclusive rights to patented and unpatented (secret) technology and by other restrictive devices;

(2) that on the foundation of such control it secured monopolistic control over the manufacture and

marketing of plain paper copiers which resulted in a decade of no plain paper office copier competition at all;

(3) that since the early 1960's, with the intent to maintain and enlarge its monopoly and to exclude competitors, it repeatedly refused to grant SCM and others access to that essential skill and technology;

(4) that with the same effect and intent, (a) it has continued to acquire exclusive ownership or use of patented and unpatented technology developed by others; (b) it has maintained and enlarged its control over most of the technical personnel in the world who are qualified to engage in plain paper office copying technological research and development by restrictive employment agreements and other devices including acquiring other technically-oriented companies; and (c) it has engaged in other restrictive practices which have excluded or restrained potential competition; and

(5) by use of its monopolistic power it has developed an unmatched product line which it is constantly expanding and it has amassed enormous technological, manufacturing and marketing power with respect to plain paper office copiers which themselves constitute unlawful barriers to actual and potential competition and competitive entry.

The effects of Xerox's monopolization and threatened continued monopolization have been and are to exclude and re-

strain other potential and actual competitors from the opportunities for full and fair competition.

The essence of SCM's claims that Xerox has attempted to monopolize in violation of Section 2 of the Sherman Act is that, even if Xerox's acts and practices and their effects fall short of actual monopolization (whether the line of commerce relates to plain paper office copying, or is more broadly defined), those acts and practices have been carried on by Xerox with the specific intent of attempting to obtain monopoly power.

The essence of SCM's claims under Section 1 of the Sherman Act is that the agreements, combinations and conspiracies with others (which may also violate Section 2 of the Sherman Act) are in fact unreasonable restraints of trade.

The essence of SCM's claims under Section 7 of the Clayton Act is that Xerox's purchases and acquisitions of patented and unpatented technology, stock and other assets have had the probable effect of substantially lessening competition in the lines of commerce as defined by SCM or in lines of commerce as more broadly defined by Xerox.

If some or all of those claims are established on final adjudication, nothing short of drastic permanent injunctive relief is required in order to create the ultimate conditions for the creation of full and fair competition. Such relief is not limited to merely restraining violations which have occurred, but may include other provisions for the remedial purpose of most

promptly creating or restoring full and fair competition, such as separation of Xerox's research and manufacturing activities from its marketing activities and the other forms of relief requested in paragraphs 31 et seq. of the Amended Complaint. See, e.g., United States v. Standard Oil, 221 U.S. 1, 77-82 (1911) (Sherman Act, §§ 1 and 2); United States v. American Tobacco Co., 221 U.S. 106, 184-188 (1911) (Sherman Act, §§ 1 and 2); International Boxing Club v. United States, 358 U.S. 242, 253-263 (1959) (Sherman Act §§ 1 and 2); Calnetics Corp. v. Volkswagen of America, Inc., 348 F.Supp. 606 and 353 F. Supp. 1219 (C. D. Cal. 1973) (§ 7 of the Clayton Act); ITT Corp. v. GT&E Corp., 1972 Trade Cas. ¶¶ 74,094 and 74,270, (D. Hawaii) (§ 1 of the Sherman Act and § 7 of the Clayton Act).

Depending upon the dangers of violation and unlawful effects which the Court perceives may occur during the interim period of the litigation, a preliminary injunction serves to pave the way for the most effective permanent relief by protecting to the extent possible the existence and promotion of competition, and by preventing or ameliorating anticompetitive practices and effects during such interim period.

We turn now to kinds of preliminary injunctive relief which in the circumstances of this case the Court may grant on a proper showing concerning violation and effects, including private and public injury.

SCM's Memorandum in Opposition to Xerox's Contention that as a Matter of Law Injunctive Relief is Not Available

A. Access to Patented and Unpatented Technology and To Qualified Personnel.

1. Access to Patented Technology.

Let us assume a sufficient showing has been made as to the unlawfulness of Xerox's refusals of SCM's repeated requests since 1963 for a plain paper office copying patent license (having the effect of unlawfully placing Xerox many years ahead of SCM with respect to the essential technology involved), or to the existence of SCM's need for access to that technology during the pendency of the action without threat or fear that Xerox will attempt to enforce its illegally obtained exclusive patent rights. Then, it would be a proper exercise of equity power (1) to direct that Xerox during the pendency of the action grant SCM a plain paper office copier patent license or its substantive equivalent, (2) to restrain Xerox from threatening to enforce or maintaining any action to enforce its patents during the pendency of the action.

This is the preliminary injunctive relief sought by SCM in paragraphs 49 and 51 of the Amended Complaint. It is the same kind of relief suggested by Control Data and other companies as interim relief measure No. 4, Exhibit 1 to SCM's motion of Nov. 16, 1973 (hereafter referred to as "Exhibit 1").

Under the principles which we have discussed in Points I and II, the Court possesses power to grant that kind of relief. Moreover, the MCI decision stands squarely for equity's power to

require the defendant to deal with plaintiff during the pendency of the action, despite prior refusals to do so. Likewise, Philadelphia World Hockey Club stands squarely for equity's power to restrain the exercise of exclusive rights during the pendency of the action. In that case it was the exclusive rights under the reserve clause; in this case, it is exclusive rights under existing patents, exclusive rights to secret technology, and exclusive rights under agreements with others regarding technology yet to be developed. In both World Hockey and here, the plaintiffs have charged that the exercise of those exclusive rights is unlawful. Also, as in World Hockey, where only 7 of more than 200 players had been sued for breach of the reserve clause, the relief should be granted so that Xerox does not possess, at the instant of its own choosing, the power to drop the Sword of Damocles on SCM, either with respect to the plain paper office copiers it is attempting to develop, or with respect to the Van Dyk plain paper office copier which in early December, 1973, SCM undertook contractually to market and which it is presently attempting to market.*

Preliminary injunctive relief with respect to Xerox's patents need not, and should not be limited to existing patents,

* SCM plans to show that Xerox has, here and, through Rank-Xerox abroad, commenced patent infringement litigation against anyone who brought out a plain paper office copier who Xerox considered to have sufficient resources to compete with Xerox. SCM also plans to show that absent an appropriate injunction, there is reasonable ground to fear that Xerox will commence patent litigation against it.

but also patents hereafter acquired or issued to Xerox during the pendency of the action. Assuming Xerox's present patent position has been unlawfully acquired and is being unlawfully maintained, access to that new patented technology is necessary so that Xerox does not enlarge its already existing large technological lead - a technological lead which, as shown by Xerox's 1972 Long-Range Plan, threatens to result in an enlargement of Xerox's already existing product lead.

For a potential or actual competitor such as SCM to attempt to keep pace with Xerox in the years ahead - and at least preserve the distance which exists between them at this juncture - access to the new technology is vital.

Recently, there have been events which evidence and buttress that conclusion. In early December, 1973, SCM announced that it had entered into a contract to market the Van Dyk plain paper office copier, at that time the fastest plain paper office copier on the market (at 4,000 copies per hour compared to 3,600 copies per hour for the Xerox "3600"). Although Van Dyk had been attempting itself to market the copier for close to two years, it is a small company without a sales and service organization or sufficiently substantial resources to build one.

This market entry by SCM with a relatively new plain paper office copier, on a relatively small scale, in attempted competition with the Xerox 3600, met two weeks later with an

announcement by Xerox which immediately threatens the existence of that competition at its very birth. According to the Wall Street Journal of December 21, 1973, p. 6, col. 2, 3, the chief executive officer of Xerox announced that in 1974 Xerox intended to introduce six new products, only one of which he identified. That one, the Ardri, according to statements attributed to Xerox's chief executive officer, will be able to turn out nearly 8,000 copies an hour. Thus, suddenly, the copier to be marketed by SCM is no longer the fastest available.

The anticompetitive effects of both the announcement of that new copier (many months before it is actually going to be marketed), and ultimately, its introduction, are plain. Just at the moment the Xerox "3600" faces its first competition from a marketer such as SCM which has the sales and service facilities to offer some competition to Xerox (there is no other plain paper office copier which presently has the operating characteristics to compete with the "3600"), Xerox has announced and will introduce some time within the current year a new copier, based on more recently developed technology, which will cut down SCM's opportunities to compete. Many present or potential customers for either the Xerox "3600" or the Van Dyk copier as now-marketed by SCM, are likely to wait for the Xerox Ardri, a unique new plain paper office copier which faces no plain paper office copier competition.

When in fact marketed by Xerox, many present or potential customers are likely to install the Ardri in preference to the Xerox 3600 or the SCM-Van Dyk copier; and therefore SCM's competitive opportunities have been limited and restrained.

In such circumstances, at minimum, access to Xerox's patented technology relating to the Ardri is essential* to provide SCM with the first essential element in attempting to keep pace with Xerox's product innovation.

Moreover, the Ardri example is illustrative of the situation -- and the need for access to the underlying technology -- which exists as to all of the other models of plain paper office copiers which are unique, and as to which Xerox has no or only little competition, as well as the other unique copiers which it plans to introduce and market in the coming years based on new technology it has developed or has obtained exclusively from others.

The announcement of Ardri's introduction is the kind of act anticipated in the Amended Complaint. In paragraph 27(r), for example, SCM refers to Xerox's plans to use the technology it has acquired and aggregated to introduce new and improved copiers.

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* In addition to granting a competitor access to the technology involved (which will require time to use before competitive copiers can be developed and marketed) another approach would be to require Xerox to sell the unique product to competitors, as suggested by Control Data in Interim Relief Measure No. 7 (Exhibit 1, p. A-2). This relief alone, while of some effect on the marketing level, would not stimulate competition in the development of technology or in manufacturing.

Ardri is a dramatic example of Xerox's power to maintain and enlarge its product lead.

Assuming arguendo that the showing made by SCM at the hearing does not justify an all-encompassing license to SCM, the showing may nevertheless justify a patent license or patent enforcement restraint against Xerox as to particular patents or with respect to the patented inventions used by Xerox in particular products. We have already referred to one example where such lesser included relief might relate only to the patents used in a particular product. If less than all-encompassing patent relief is warranted, then it might be limited to the Ardri, and such other unique products as to which a sufficient showing is made.

There even may come a time when Xerox argues that if the patents it has purchased or acquired from Battelle, Rank-Xerox, Fuji-Xerox and others are declared unlawful under Section 7 of the Clayton Act or other antitrust laws, the rights under patents internally generated by Xerox's own personnel have been lawfully acquired. In that regard, SCM contends that the generation of patents internally was possible only on the foundation of its illegally acquired patented and unpatented technology, and therefore constitutes the "fruit of the poisoned tree." But assuming arguendo that SCM's contention were not sustained in that regard, and only its contentions are sustained as to the unlawfulness of Xerox's exclusive ownership of patents developed by and acquired from others, then a patent license or patent enforcement restraint

against Xerox during the pendency of the action would be justified as to those patents which already have been, or which may in the in the future be acquired under those agreements.

Without attempting to exhaust all of the possible combinations and permutations of relief during the pendency of the action as to Xerox's patents, it is clear that on a proper showing some appropriate relief, whether all-encompassing or partial, can be granted.

In paragraph 51 of the Amended Complaint SCM requests that the patent license directed during the pendency of the action should be royalty-free until the final adjudication. Then a determination should be made, based on that adjudication, whether any royalty should be imposed retroactively. Although SCM considers that approach to be the most equitable one, nevertheless the Court possesses the power to require payment of a reasonable royalty as a condition of granting the preliminary injunction. Whether the Court might want to decree a royalty rate during the pendency of the action (in effect, a form of a preliminary injunction bond as to that relief), or await the final adjudication, is a matter which should be, like all the other matters pertaining to SCM's motion, decided after the hearing.

2. Access to Xerox's Unpatented Secret Technology.

Interim Relief Measure No. 4 of Control Data and other

companies (Exhibit 1, p. A-1), suggests that IBM in its computer field be required to license its unpatented technology as well as its patented techr ogy; and to afford reasonable assistance to others in understanding and utilizing all of the licensed technology. Access to the unpatented technology maintained in secret by Xerox may be equally as vital to SCM as access to Xerox's patented technology, in SCM's attempts to keep abreast of Xerox's existing technology and the innovations to come.

Either on an all-encompassing or partial basis, the Court has equitable power to require Xerox to license unpatented technology to SCM, including that relating to particular unique Xerox products, and to require Xerox to furnish such reasonable assistance as may be necessary to use the patented and unpatented technology which is licensed.

Although SCM did not specifically describe this type of preliminary injunctive relief in paragraphs 49 through 53 of the Amended Complaint, the ambit of appropriate preliminary injunctive relief is not circumscribed by the pleading. The relief to be granted is the relief which the Court deems just and proper on the showing that is made.*

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* See note p. 5; see also Columbia Broadcasting Systems, Inc. v. American Society of Composers, 320 F.Supp. 389 (S.D.N.Y. 1970); Eastman Kodak Co. v. Fotomat Corp., 317 F.Supp. 304 (N.D. Ga. 1969), appeal dismissed 441 F.2d 1079 (5th Cir. 1971).

3. Access to Qualified Personnel.

SCM claims that one important element in Xerox's monopolization of the skill and technology of plain paper office copying (and therefore its monopolization of the manufacturing and marketing of plain paper office copiers) has been its control of the technical personnel qualified to use that technology (see ¶ 27(e) of the Amended Complaint). SCM alleges that Xerox has built a technical community under its exclusive control which by 1972 included about 95% of the world's personnel who are proficient in xerography (Ibid.) It claims that Xerox has acquired and maintained its control of such personnel by various devices, including restrictive employment agreements which prevented or restrained them from engaging in xerographic activities for any other company following termination of employment with Xerox (paragraph 27(d) of the Amended Complaint).

Accordingly, on a proper showing, the preliminary injunctive relief requested in paragraph 53 may be granted by the Court, restraining Xerox against enforcing or attempting to enforce its restrictive employment agreements. In this regard, Philadelphia World Hockey is directly in point since the NHL was restricted during the pendency of the action from attempting to enforce exclusive rights to the employment of players under its reserve clause, thereby enabling the WHA to compete for their services.

B. Preliminary Injunctive Relief Requiring Disclosure of Xerox's Present Short and Long Range Plans.

If SCM makes a sufficient showing as to the illegality of Xerox's present monopolistic or anticompetitive position with respect to technology, manufacturing and marketing, then to prevent the possible demise of an infant competitor or even to prevent stunting its growth, the Court should grant preliminary injunctive relief requiring Xerox to disclose its short and long range plans as requested in paragraph 52 of the Amended Complaint. This relief is a vital first step so that SCM can be aware of what Xerox is planning to do and take that into account in better attempting to compete.

For example, if Xerox is planning to concentrate its marketing efforts for its new Ardri on an identifiable segment of present users of 3600, SCM would be in a better position to attempt to compete for the trade of the present 3600 users who are not in that segment. Otherwise, its competitive efforts may be spent uselessly. To take only one other example, if Xerox's present short and long range plans indicate that new copiers are soon to be introduced which will obsolete or reduce the competiveness of copiers being marketed or designed by SCM, SCM might better shift its approach so as to be able to survive, no less grow in its competitive efforts.

Similarly, Xerox has conducted extensive and unmatched market research concerning the needs and desires of consumers

regarding plain paper office copiers. Today, only Xerox has the benefit of that research in planning new products and marketing policies to meet those needs and desires. The Court on a proper showing should give SCM access to the same information to better guide its incipient competitive efforts.

As Judge Higginbotham said, the antitrust laws need not operate only in an attempt to resurrect the dead; the power to grant preliminary injunctive relief can be fashioned to nourish the growth of new competitors and potential competition. (Philadelphia World Hockey, 351 F. Supp. at 510).

C. Preliminary Injunctive Relief to Anesthetize Xerox's Control and the Anticompetitive Effects of Past Acquisitions and to Prevent Future Ones.

In addition to Xerox's purchases and acquisitions of patented and unpatented technology, it has purchased or acquired other assets and the stock of other companies. If a sufficient showing is made as to the illegality of such acquisitions of stock, including its acquisition of the stock of Rank-Xerox (the last chapter of which was in 1969 when Xerox purchased stock from Rank Organization, Ltd. sufficient to give Xerox voting control) then the Court has the power to anesthetize Xerox's control and to minimize to the extent possible any future anticompetitive consequences flowing from that control. It has, we discussed above, the power to at least "freeze" the ability of the acquir-

ing company to obtain any further benefits or exercise any further control.

Such an anesthetization of control may include preventing Xerox from getting the exclusive benefits of any technical or product developments made by Rank-Xerox or others whose control was acquired. It and other relief predicated on findings concerning the violations by Xerox arising from agreements and combinations with companies abroad would thus prevent Xerox from implementing any of its policies in or outside of the U.S. through Rank-Xerox. It would open up greater opportunities for American companies such as SCM, to manufacture or market American-made office copiers abroad.

In addition to granting preliminary injunctive relief against the further effects of acquisitions already consummated, the Court possesses the power preliminarily to restrain Xerox against any future acquisitions of the stock or assets of any other company, as well as the future acquisition of any patented or unpatented technology.

D. Other Forms of Preliminary Injunctive Relief.

A review of Xerox's alleged unlawful acts since 1961 (¶ ¶ 26 and 27 of the Amended Complaint), and a review of the alleged unlawful effects of all of Xerox's acts (¶ 28 of the Amended Complaint) shows that there are several other subject

matter areas which justify other kinds of preliminary relief. If it is assumed at this juncture for purposes of testing Xerox's demurrer that SCM will make a showing of the strongest possible likelihood that those acts and their effects have occurred, and will continue to occur, and that they are unlawful, the power of equity to fashion appropriate preliminary injunctive relief cannot be doubted. Indeed, if it is assumed - as Xerox must for purposes of testing its present contentions - that all of the acts, effects and violations have occurred as alleged, then as shown in Point III the Court has the power, which it should exercise, to proceed to fashion and grant permanent injunctive relief.

Moreover, Xerox's acts and practices since the institution of this action or since the filing of the Amended Complaint in November 1973, which carry out the kinds of threatened acts or harm referred to in the Amended Complaint, may furnish additional factual foundation for the granting of appropriate preliminary injunctive relief.

CONCLUSION

There is no basis for Xerox's contentions that a hearing on SCM's motion "would be an exercise in futility" and that as a matter of law this Court is without power, on a proper showing, to grant preliminary injunctive relief in this case. Accordingly,

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SCM's Memorandum in Opposition to Xerox's Contention that as a Matter of Law Injunctive Relief is Not Available

Xerox's objections to holding a hearing on SCM's motion for preliminary injunction should be overruled.

Respectfully submitted,

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Dated: February 4, 1974

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DEFENDANT'S REPLY MEMORANDUM WITH RESPECT TO LEGAL SUFFICIENCY OF PLAINTIFF'S REQUEST FOR PRELIMINARY INJUNCTION

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,	:	
Plaintiff,	:	
-against-	:	Civ. No. 15807
XEROX CORPORATION,	:	
Defendant.	:	

DEFENDANT'S REPLY MEMORANDUM WITH RESPECT TO LEGAL SUFFICIENCY OF PLAINTIFF'S REQUEST FOR PRELIMINARY INJUNCTION

Despite its length and rhetoric, SCM's brief does not impair the conclusion required by the authorities set forth in Xerox' initial brief: The constantly expanding preliminary relief requested by SCM may not be granted as a matter of law because (1) it would neither preserve nor restore the status quo, but would improperly accord SCM a new status never previously enjoyed; and (2) it plainly is not needed to prevent immediate irreparable injury to SCM.

A.

The Legal Posture Of SCM's Motion

SCM's entire brief is premised on a false conception. It would have the Court believe that, since Xerox has in effect demurred to SCM's motion, it must be assumed

that Xerox is guilty of the antitrust violations alleged in the complaint. Thus, SCM states that the Court must assume that "the ultimate adjudication . . . will be in favor of plaintiff on its claims against the defendant" (SCM Brief, p. 43) -- in other words, that Xerox' conduct violates Section 2 of the Sherman Act (id., p. 11). This totally misconceives the effect of Xerox' "demurrer."

Simply stated, it is Xerox' position that, even if it be assumed arguendo that SCM will establish, at a preliminary hearing, a substantial likelihood that it will ultimately prove at trial its antitrust charges, there is no point in holding such a hearing because SCM would still not be entitled to the requested relief pendente lite. This, of course, is a far cry from assuming that, after trial, the jury will find for SCM, much less that Xerox is an unlawful monopolist.

It is precisely because a preliminary injunction curtails the defendant's conduct prior to a full adjudication on the merits that the remedy is an extraordinary one, strictly limited to cases of immediate irreparable injury. Xerox is entitled to a full trial, after adequate discovery, on each of the numerous factual and legal questions at issue between the parties; and SCM cannot, under the guise of a preliminary injunction motion, shortcut Xerox' right to defend itself.

B.

The Status Quo

1.

In its initial brief, Xerox set forth the legion of authority which establishes that the purpose of a preliminary injunction is to preserve or restore the status quo, that is, the last uncontested status of the parties; and that preliminary relief which would accord a party a new status never previously enjoyed may not be granted (Xerox Brief, pp. 5-14). Without coming to grips with this plethora of judicial authority, but on the strength of a note by the editors of the Harvard Law Review,* SCM asks the Court to innovate by using its equitable power to "create" a new state of affairs (SCM Brief, p. 6). The fact is, however, that the student author's statement is sheer ipse dixit unsupported by the citation of any authority. Indeed, the author expressly recognizes the contrary judicial decisions, but chooses to disagree. It goes without saying that student preference is no match for judicial authority.

*Developments in the Law - Injunctions, 78 Harv. L. Rev. 994, 1056, 1058 (1965).

SCM cites the same law review note for the proposition that "a common exception to the status quo rule is found in cases involving acts prohibited by statutes" (p. 12). Any notion that this equitable rule does not apply to actions involving alleged violations of the antitrust laws flies in the face of the decisions discussed in Xerox' opening brief* -- not to mention the express language of Section 16 of the Clayton Act, which mandates that "the rules governing . . . proceedings [in equity]" apply in private injunctive antitrust cases.** Moreover, far from establishing any exception to the rule, the two state court cases relied on by the law review actually apply it. State Bd. of Accountancy v. Lender's Serv. Corp., 179 Cal. App.2d 150, 3 Cal. Rptr. 656 (Dist. Ct. App. 1960); Rattikin Title Co. v. Grievance Comm. of the State Bar, 272 S.W.2d 948 (Tex. Civ. App. 1954). In each of these cases the court granted a preliminary injunction prohibiting the defendant from engaging in unauthorized professional practice, thus restoring the status quo as it existed before the controversy arose, i.e., before the

*E.g., Warner Bros. Pictures v. Gittone, 110 F.2d 292 (3d Cir. 1940); Meiselman v. Paramount Film Distr. Corp., 180 F.2d 94 (4th Cir. 1950); Tanner Motor Livery, Ltd. v. Avis, Inc., 316 F.2d 804 (9th Cir. 1963), cert. denied, 375 U.S. 821 (1963); Barbys Frosted Foods, Inc. v. McDonald's Corp., 1973-2 Trade Cas. ¶ 74,622 (D.N.J. 1973).

**"Any person . . . shall be entitled to sue for and have injunctive relief . . . against threatened loss or damage by a violation of the antitrust laws, . . . when and under the same conditions and principles as injunctive relief against threatened conduct that will cause loss or damage is granted by courts of equity, under the rules governing such proceedings . . . ." 15 U.S.C. § 26.

unauthorized practice commenced. As the Texas appellate court stated:

> "[T]he status quo to be preserved by temporary injunction is the last, actual, peaceable, noncontested status which preceded the pending controversy . . . ." (272 S.W.2d at 955).

3.

Nor do the federal cases discussed by SCM, with the possible exception of one aberrational district court decision,* lend any support to SCM's position.

Toledo, A. A. & N. M. Ry. v. Pennsylvania Co., 54 F. 730 (N.D. Ohio 1893) (SCM Brief, pp. 10-11), was a suit by a railroad which sought a preliminary injunction against a union officer who had instructed unionized railroad employees not to receive and deliver freight cars in the course of their interstate travel. In granting the preliminary injunction, Judge Taft made it clear that the court was restoring conditions to the last uncontested status of the parties -- when defendant's members were processing interstate cars. In a passage directly following the language quoted by SCM, the court stated:

> "Now, the normal condition -- the status quo -- between connecting common carriers under the interstate commerce law is a continuous passage of freight backward and forward between them, which each carrier has a right to enjoy without interruption . . . ." (54 F. at 741).

*Philadelphia World Hockey Club, Inc. v. Philadelphia Hockey Club, Inc., 351 F. Supp. 462 (E.D. Pa. 1972).

By no stretch of the imagination could it be said that the injunction accorded plaintiff a new status.

Danielson v. Local 275, Laborers International Union of North America, 479 F.2d 1033 (2d Cir. 1973) (SCM Brief, pp. 12-13), is precisely to the same effect, as Xerox noted in its initial brief (at p. 9). The preliminary injunction against picketing ordered by the Court of Appeals restored conditions to their last uncontested status before picketing had commenced. SCM's statement that "the state of affairs which existed at the commencement of the suit was picketing . . ." (SCM Brief, p. 13) merely underscores its failure to recognize that a preliminary injunction may properly restore conditions to a prior uncontested status as well as preserve them as of the time suit is commenced. Again, nothing in Danielson in any way suggests that preliminary relief may grant a plaintiff a new status never previously enjoyed.

Unicon Management Corp. v. Koppers Co., 366 F.2d 199 (2d Cir. 1966) (SCM Brief, p. 13), is likewise of no help to SCM. In that case, Koppers had acquired Malan Construction Corporation and agreed with Unicon that the latter would manage the acquired company for five years. The district court found "that the right of ultimate control over its own department was vested in Koppers" (366 F.2d at 203), and granted a preliminary injunction prohibiting Unicon from participating in management except as requested by Koppers.

The Court of Appeals agreed, stating:

> "We find that the order does serve to maintain and preserve the status quo, inasmuch as it does reflect Koppers' right of ultimate control, and in doing so, prevents the dissipation of the business and the possible loss of records." (Id. at 204).

Once again, it is self evident that the court in Unicon did not employ the remedy of a preliminary injunction to bestow a new status upon a party.

SCM also cites a number of Section 7 cases in which the government obtained preliminary relief requiring the defendant to hold acquired stock or assets separate pending ultimate adjudication of the legality of the challenged acquisition (SCM Brief, pp. 18-21). As Xerox pointed out in its initial brief (at p. 8), when a preliminary injunction is ordered prior to a merger's consummation, it serves to preserve the status quo; likewise, when preliminary "hold separate" relief is ordered after the merger has taken place, its function is to restore the last uncontested status -- the situation immediately prior to the acquisition. In neither event does the injunction create a new status. These cases thus are of no aid to SCM.

Nor can SCM derive any comfort from National Association of Letter Carriers v. Sombrotto, 449 F.2d 915 (2d Cir. 1971) (SCM Brief, p. 14). This was a labor case which arose in a unique statutory context. The Bronx local of the NALC had threatened an unlawful strike in conjunction

with another non-affiliated union. NALC, acting in accordance with the Landrum-Griffin Act, thereupon imposed upon the local a trusteeship which, pursuant to 29 U.S.C. § 464(c), was presumptively valid for eighteen months. When the officers of the local refused to comply, NALC sought a preliminary injunction to enforce the statutory trusteeship. In granting the injunction, the Court of Appeals stressed that "the context in which this case arises [is] . . . of special significance." (449 F.2d at 920). Since, by statute, the trusteeship was presumed to be valid,* "Congress can hardly have wanted to leave to the local the option of reversing this statutory burden by simply ignoring its parent's mandate." (Id. at 921). In other words, it would have turned the statutory scheme on its head not to have granted the injunction:

> "[W]e are asked to enforce a statutory scheme which clearly evidences an expectation that disputes over trusteeships would be litigated with the trusteeship in effect." (Id.).

MCI Communications Co. v. American Telephone & Telegraph Co., (E.D. Pa. December 31, 1973), on which SCM heavily relies (SCM Brief, pp. 14-16), is also patently inapposite. In that case, the court found that the Federal Communications Commission, after full adjudicatory proceedings, had ordered AT&T to "provide all interconnection

*Since the statutory presumption of validity could be overcome only by a showing that the trusteeship was imposed in bad faith, the court held that "the parent is entitled to a preliminary injunction imposing a trusteeship on application unless the local comes forward with adequate proof that the trusteeship is not being sought in good faith." 449 F.2d at 921.

necessary for the specialized carrier [plaintiffs] to provide the services they were authorized to provide" (Finding of Fact 62, p. 14); that "AT&T either did present or had the opportunity to present its full range of arguments against the authorization . . . ." (Finding of Fact 69, p. 16); and that the court was "merely being called upon to enforce those orders." (Conclusion of Law 5, p. 21). In short, a preliminary injunction was granted merely requiring AT&T to do what the FCC had already ordered it to do following a plenary trial on the merits. Manifestly, the circumstances disclosed by the MCI case bear no resemblance to the present posture of the case at bar, where Xerox has had no trial, no order has been issued against it by any agency, and there has been no adjudication that it has violated any law.

The only case cited by SCM which even remotely gives it any comfort on the status quo issue is Philadelphia World Hockey Club, Inc. v. Philadelphia Hockey Club, Inc., 351 F. Supp. 462 (E.D. Pa. 1972). It suffices to say that the district court's ruling is in conflict not only with established equitable doctrine but with the controlling law in its own circuit,* which the court fails even to mention. Oddly enough, the court's opinion contains a conclusion of law that "The issuance of a preliminary injunction will maintain the status quo until a final

*Warner Bros. Pictures v. Gittone, 110 F.2d 292 (3d Cir. 1940).

adjudication of the merits" (id. at 518).*

In sum, the courts have repeatedly recognized the vitality of the cardinal principle that the purpose of a preliminary injunction is to preserve or restore the status quo and not to put the plaintiff in a new position for the first time pendente lite. SCM recognizes that it cannot succeed under that principle and therefore urges the Court to reject it in favor of a rule which would allow the grant of a preliminary injunction to create an entirely new state of affairs prior to a trial on the merits. This would not only be new law; it would be bad law.

C.

Irreparable Injury

1.

The most startling aspect of SCM's brief is that it makes no real effort to explain how or why the plaintiff needs the type of preliminary relief it seeks. Rather than face up to this critical issue, SCM endeavors to finesse the point by making two legal arguments: (1) That SCM need not show any irreparable injury because it sues as a private attorney general and therefore should have no greater

*It is noteworthy that the district court found that the WHA, a fledgling hockey league without any established players, would suffer irreparable injury if the preliminary injunction were not issued. Given the realities of the hockey business, the court found that if the WHA "does not have some superstars to nurture and sustain the public interest, it will not become a viable competitor to the NHL" (351 F. Supp. at 515) -- in other words, that without preliminary relief, the plaintiff would not survive. Here, per contra, it is clear that SCM will not suffer any such irreparable injury if the relief it requests is not granted pendente lite.

burden than the government would have in an equity case under the antitrust laws; and (2) that, in any event, irreparable injury is necessarily present in every private antitrust case because the plaintiff's damages are always uncertain in amount. In other words, SCM argues that irreparable injury need not be shown or must be presumed as a matter of law. Both points are legally untenable.

2.

SCM's brief is replete with references to the alleged need for promoting the public interest by issuing the requested preliminary injunction. Wrenching certain statements in Gulf & Western Industries, Inc. v. Great Atlantic & Pacific Tea Co., 476 F.2d 687 (2d Cir. 1973), out of context, SCM asserts that, since it is acting as a private attorney general, "the public interest requires the application of the same standards in determining a private party's motion for a preliminary injunction as are applied in determining such a motion made by the government." (SCM Brief, p. 7). As explained at length in Xerox' initial brief (pp. 30-33), Gulf & Western holds no such thing. Nor could it, since Congress has drawn a sharp distinction between the preliminary injunction standards applicable in government and private suits.

As Judge Rifkind observed in another context, "the scheme of the [antitrust] statute is sharply to distinguish between Government suits, either criminal or civil, and

private suits for injunctive relief or for treble damages. Different policy considerations govern each of these." United States v. Bendix Home Appliances, Inc., 10 F.R.D. 73, 77 (S.D.N.Y. 1949). With respect to the availability of preliminary injunctive relief, this vital distinction is embodied in the very language of the Clayton Act. In contrast to Section 15, which permits the government to obtain such preliminary relief "as shall be deemed just in the premises," Section 16 expressly conditions the grant of a preliminary injunction to a private party upon "a showing that the danger of irreparable loss or damage is immediate . . . ." As stated in United States v. Ingersoll-Rand Co., 320 F.2d 509, 524 (3d Cir. 1963):

> "A private plaintiff must show that hardship or damage will result to it, but where the United States is the plaintiff, as here, the United States is not required to prove public detriment from a merger which would violate the provisions of Section 7."

Thus, SCM is correct when it states: "In a Government case, the Government need not prove the existence of irreparable injury to the public on a motion for preliminary injunction" (SCM Brief, p. 34).* The only flaw in its

*Among the authorities SCM cites for this black letter rule is a Harvard Law Review note, 79 Harv. L. Rev. 391 (1965), which itself makes the crucial distinction between actions under Sections 15 and 16. After noting the difference in statutory language, the author states: "Section 16 further requires that a private party show that he will suffer irreparable loss or damage in the absence of the order. A comparison of the two sections suggests that preliminary injunctive relief at the suit of the Government is not an extraordinary remedy, as it is when requested by private individuals." Id. at 398.

argument is the immutable fact that SCM is not the government.*

As far as Gulf & Western is concerned, it is true that the Court of Appeals stated that "a preliminary injunction would serve the public interest as much as A&P's private interests" (476 F.2d at 699), and that private antitrust enforcement is salutary because the government cannot prosecute every violation.** This observation is plainly beside the point here, since the government (i.e., the Federal Trade Commission) long before the advent of SCM as a private suitor, had both sought out and commenced prosecution of Xerox' alleged monopolization. SCM's role as a private attorney general (as distinguished from its position as an ordinary private litigant) is therefore superfluous.

In the final analysis, of course, the complete an-

*Proceeding one step further down the litigation road, the logical implication of SCM's argument is that as a private attorney general, it (like the government) would be entitled to permanent injunctive relief after a trial merely upon proof of an antitrust violation, even with no additional showing that SCM was itself threatened with consequential loss or damage -- a result expressly precluded by Section 16. Indeed, SCM has recognized the necessity for such an additional showing. (Tr. of Dec. 7, 1973 at p. 23). What SCM is contending, therefore, is utterly nonsensical: As a matter of preliminary relief it stands in the shoes of the government and need not show irreparable injury; but when it comes to permanent relief, suddenly it no longer is on a parity with the government and must shoulder the burden of proving threatened loss or damage to its business or property.

** "Since it is impossible as a practical matter for the government to seek out and prosecute every important violation of laws designed to protect the public in the aggregate, private actions brought by members of the public in their capacities as investors or competitors, which incidentally benefit the general public interest, perform a vital public service." Id.

swer to SCM's reliance in Gulf & Western is the fact that the Second Circuit based its affirmance of the preliminary injunction squarely on the district court's finding that, absent interlocutory relief, A&P would be irreparably injured (476 F.2d at 698). See Xerox' initial brief, pp. 30-33.

Unless Congress sees fit to amend the governing statute, immediate irreparable injury is a necessary prerequisite to the issuance of a preliminary injunction in a private antitrust action. The point is simply inarguable.*

3.

SCM's other legal argument with respect to irreparable injury is just as specious. Tacitly acknowledging that the availability of an adequate damage remedy would preclude the issuance of a preliminary injunction, SCM asserts that, because the damages it might suffer during the pendency of this suit "are difficult to assess," their recovery after a trial on the merits would be inadequate (SCM Brief, p. 29). SCM fails to explain why the proof of whatever damages it might incur between now and the entry of a final judgment will be any more difficult or uncertain than proof of those it claims have already been sustained and which it has solemnly informed the Court it can establish by at least two alternative methods. (Transcript of December 7, 1973 at pp. 44-46). SCM plainly has an ade-

*Indeed, if SCM is serious in asserting that it need not show irreparable injury, one might wonder why its complaint contains repeated conclusory allegations to that effect. (Amended Complaint, ¶¶ 2, 30(a), 54).

quate remedy in money damages here under the applicable case law. See Xerox' initial brief, pp. 26-28.

But the crushing answer to SCM's argument comes from SCM itself. In an effort to persuade the Court that proof of its damages is indeed uncertain, it, remarkably enough, cites the very decisions of the Supreme Court which relax the plaintiff's burden of proving the quantum of its damages in a private antitrust case. (SCM Brief, pp. 29-31). It is hornbook law that a treble-damage plaintiff need not prove its damages with certainty and that the risk of uncertainty must be borne by the defendant once it is proved to be a wrongdoer. As Chief Justice Stone held in Bigelow v. RKO Radio Pictures, Inc., 327 U.S. 251, 264-65 (1946):

> "[T]he jury may make a just and reasonable estimate of the damages based on relevant data . . . . The most elementary conceptions of justice and public policy require that the wrongdoer shall bear the risk of the uncertainty which his own wrongdoing has created."

See also, e.g., Eastman Kodak Co. v. Southern Photo Materials Co., 273 U.S. 359, 379 (1927) ("a defendant whose wrongful conduct has rendered difficult the ascertainment of the precise damages suffered by the plaintiff, is not entitled to complain that they cannot be measured with the same exactness and precision as would otherwise be possible."); Story Parchment Co. v. Paterson Parchment Paper Co., 282 U.S. 555, 562 (1931) (quoted in SCM Brief, p. 30).

These cases expose the Alice-in-Wonderland quality

of SCM's argument. Even if SCM's damages during the pendency of this action may be uncertain, if it can prove them by a "just and reasonable estimate" -- as it states it can as to past years -- they can be recovered (and trebled to boot); and if they can be recovered, SCM's injury is not irreparable.

What SCM's argument really boils down to is the proposition that, since all antitrust damages are uncertain, an antitrust plaintiff seeking a preliminary injunction never has an adequate remedy at law and therefore is always irreparably injured. This would expunge the irreparable injury standard from Section 16. Needless to say, any such radical statutory surgery must be performed by Congress, not the courts.

4.

When SCM finally addresses itself to the specific items of relief which it is seeking pendente lite (SCM Brief, pp. 59 et seq.), it makes no effort to explain how it could conceivably suffer the requisite irreparable injury if that relief were denied.

Access to Patented Technology -- Xerox' initial brief exposed the ephemeral nature of any SCM injury resulting from its failure to receive a patent license pendente lite (Xerox Brief, pp. 19-23). Since Xerox will not seek a preliminary injunction against any infringement by SCM, and since it could not obtain permanent injunctive relief without prevailing on the issue of antitrust violation which

would inevitably be raised as a misuse defense, as a practical matter SCM cannot be restrained by Xerox' patents from manufacturing or marketing plain paper copiers, now -- and it similarly cannot be restrained from so doing by any future Xerox patents that may issue pendente lite. It necessarily follows that Xerox' patents in no way impede SCM's ability to compete during the progress of the present case. SCM's assertion that the threat of a Xerox patent suit hangs over it like a Sword of Damocles poised to behead it (SCM Brief, p. 40) is thus empty rhetoric. By the same token, SCM's purported concern (SCM Brief, pp. 40-41) over the "need" to indemnify its customers against infringement proceedings is totally obviated by Xerox' undertaking not to sue any machine end user for infringement (Xerox Brief p. 24).

Nor can the mere commencement of a patent infringement action against SCM by Xerox (absent a preliminary injunction) seriously injure SCM. (Parenthetically, SCM's antitrust complaint in this case is not premised on allegations attacking the validity of Xerox' patents; the complaint (¶ 29) proceeds on the assumption that such patents were validly issued.) It goes without saying that SCM, a company with 1973 total assets in excess of $500 million and net sales of almost $1 billion, would not roll over and play dead if sued for patent infringement. But there is no need to speculate about the matter. SCM's competitive viability has not been affected in the slightest

by the filing of Xerox' patent infringement counterclaims in this very action with respect to coated paper copiers.*

The short of the matter is that SCM does not need a patent license pendente lite (or its prohibitory obverse, an injunction against patent infringement suits). It cannot possibly be irreparably injured if such relief is denied.

Access to Unpatented Know-How -- SCM summarily states that "access to the unpatented technology maintained in secret by Xerox may be equally as vital to SCM as access to Xerox's patented technology, in SCM's attempts to keep abreast of Xerox's existing technology and the innovations to come." (SCM Brief, p. 66; emphasis supplied). It is not surprising that SCM refrains from claiming that such drastic relief is necessary to avoid irreparable injury.

This request is a obvious afterthought. Neither SCM's original 46 page complaint nor its 25 page amended complaint sought access to Xerox' know-how pendente lite, despite the fact that such a request was included in SCM's amended prayer for permanent injunctive relief (Amended Complaint ¶ 42). This was plainly not a matter of oversight. SCM made a conscious and deliberate determination that it did not need access to Xerox' know-how preliminarily -- and for good reason.

The very facts set forth in SCM's brief (p. 61)

*SCM is no different in this respect than IBM, Litton and Dennison, each of which is presently defending a Xerox patent infringement action.

make it perfectly apparent that SCM does not need Xerox' know-how to compete effectively. A much smaller company, Van Dyk, without access to any of Xerox' unpatented technology, developed a machine which SCM declares is "the fastest plain paper office copier on the market (at 4,000 copies per hour compared to 3,600 copies per hour for the Xerox '3600')." SCM can hardly plead technological inability to do what Van Dyk has already done. Moreover, as a distributor of the Van Dyk machine, SCM stands to reap the benefits of Van Dyk's development.*

What is more, if Xerox were ordered to disclose its know-how to SCM pendente lite, Xerox would be irreparably injured if the jury should ultimately find in Xerox' favor.

*SCM makes much of Xerox' recent announcement of its intention to introduce the "Ardri" machine. SCM claims this will hinder the competition of the Van Dyk machine. It insinuates that development of "Ardri" has been a carefully guarded secret and that the new machine's announcement was triggered by SCM's public plans to market the Van Dyk copier. The fact of the matter is that Xerox' development of a machine capable of producing more than 7,000 copies an hour (i.e., "Ardri") has been public knowledge for more than a year as the newspaper articles appended hereto as Appendix A and Appendix B plainly demonstrate. Despite this publicity, SCM went full steam ahead and entered into its distribution arrangement with Van Dyk. What is more, Van Dyk itself has been going forward with its development work. Thus, its President informed the Van Dyk shareholders by letter dated October 2, 1973 (Appendix C hereto) that the company is developing a machine capable of making 8,000 copies per hour -- which he described as Van Dyk's "potentially most important product," adding that the machine "looks very promising."

For secrets, once disclosed, can never be recaptured. In short, this belated request for interlocutory relief is so clearly beyond the realm of both necessity and propriety that it cannot be taken seriously.

Access to Qualified Personnel -- Since, as Xerox represented in its initial brief (p. 3), the restrictive employment agreements of which SCM complains (SCM Brief, p. 67) are no longer in effect, this request is moot.

Access to Xerox' Plans -- Xerox' initial brief pointed out the total absence of any legitimate need on SCM's part for access to Xerox' secret future plans which, if provided to a competitor, would give SCM an undue and unwarranted competitive advantage (Xerox Brief, pp. 24-25). Although SCM's brief (pp. 68-69) maintains that such plans should be turned over to strengthen SCM's competition, no attempt is made to explain how SCM will be irreparably injured without these plans. Xerox' other competitors, including Van Dyk, do not have the benefit of Xerox' plans. Surely SCM is not entitled to any such singular anticompetitive privilege.

Relief As to Rank-Xerox -- SCM asserts that "the Court has the power to anesthetize Xerox' control" over Rank-Xerox by "preventing Xerox from getting the exclusive benefits of any technical or product developments made by Rank-Xerox." (SCM Brief, p. 70). Like the request for know-how, this prayer for relief pendente lite was not

included in SCM's original or amended complaint, and can only be viewed as a transparent afterthought. The very least that one should expect from an applicant for this extraordinary remedy is that it seriously consider the necessity for the particular relief requested of the Court. SCM should not be permitted to treat a preliminary injunction motion like a football game with unlimited substitution. There is not one word in SCM's brief even purporting to show why such relief is needed pendente lite or how SCM will be irreparably injured if it is not granted. Indeed, one will search SCM's complaint in vain for any allegation that Xerox obtains any technological "benefits" from Rank-Xerox. To the contrary, SCM alleges (¶ 27(t)(ii)) that it was Xerox which contributed patents and know-how to Rank-Xerox.

Another brand new preliminary relief request, made for the first time in SCM's brief (p. 70), is that Xerox should be enjoined from acquiring any assets, stock, patents or know-how from any other company. This cavalier suggestion, made in passing, is not supported by any reasoning, much less representation that such relief is needed to avoid irreparable injury -- an additional example of SCM's shotgun approach to preliminary relief.

D.

Availability of Permanent Relief

Point III of SCM's brief suggests that the Court might, on a preliminary injunction hearing, grant all or part

of the permanent relief prayed for in the complaint (SCM Brief, pp. 53-54). In so doing, SCM relies on cases in which there were no disputed issues of fact, so that the propriety of final relief could be decided as a matter of law at a preliminary injunction hearing.*

This argument faces two insurmountable obstacles. First, Xerox' right to a jury determination with respect to each relevant issue of fact precludes the Court from making ultimate findings on this motion. See Xerox' initial brief, p. 21, fn. Second, there are a multiplicity of hotly contested key issues of fact in this case, and it is frivolous to pretend otherwise.

Conclusion

When all is said and done, the reasons set forth in Xerox' initial brief why, as a matter of law, SCM may not obtain the preliminary relief it seeks remain unanswered by SCM's brief. Moreover, SCM's real objective here -- to obtain an advisory opinion as to the likelihood of its ultimate success on the merits -- is now revealed explicitly by SCM's own words:

*Thus, in Standard Oil Co. of Texas v. Lopeno Gas Co., 240 F.2d 504, 509-10 (5th Cir. 1957) (SCM Brief, p. 53), the Court stated: "There appear to be no material issues of fact . . . . Nothing more remained to be tried." Similarly, in Allegheny Oil Co. v. Snyder, 106 F. 764, 770 (6th Cir. 1900) (SCM Brief, p. 54), "the facts were substantially undisputed." And in Coty v. Prestonette, Inc., 285 F. 501, 516 (2d Cir. 1922), rev'd on other grounds, 264 U.S. 359 (1924), the court expressly found that "[t]here are no uncontroverted questions of fact . . . ."

Defendant's Reply Memorandum with Respect to Legal Sufficiency of Plaintiff's Request for Preliminary Injunction

> "For SCM to undertake such a commitment [i.e., of resources and money] during the pendency of the action without preliminary injunctive relief in the face of the threat of patent enforcement by Xerox and its attendant anticompetitive restraint might very well be economic suicide. A decision by the Court that SCM is likely to establish its claims against Xerox substantially reduces that risk to manageable proportions." (SCM Brief, p. 41; emphasis supplied).

This is not a legally sufficient ground for the grant of a preliminary injunction. An advisory opinion does not operate to preserve the status quo; and failure to secure such judicial advice is not irreparable injury.

Since SCM is not entitled to the preliminary relief it seeks as a matter of law, its motion should be denied.

Respectfully submitted,

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Defendant's Reply Memorandum with Respect to Legal Sufficiency of Plaintiff's Request for Preliminary Injunction

APPENDIX A

N,Y.TIMES 12/4/72

The New York Times

No. 1 Xerox Wants More Copier Business

By WILLIAM D. SMITH

In 1971 more than one trillion copies were made throughout the world on office copiers, duplicators, offset, mimeo devices and carbon paper, according to a man who should know, William F. Sounders, senior vice president of the Xerox Corporation.

The copier industry's potential is considered all the more impressive when it is realized that in the space of 12 years it has grown from a minuscule segment of the over-all office-equipment market to a $3-billion-a-year business in its own right.

The copier-duplicator market is not too exactly defined. Equipment prices range from machines that sell in stationery stores for $29.95 to others that rent for as much as $600 a month.

Intense Competition Mounting

Although many people think of copying as the "Xerox business," and the company does have more than half of the total market, the competition is intense and mounting. For example:

¶Introduction by the International Business Machines Corporation on Nov. 1 of a new intermediate-speed copier-duplicator, the second model introduced by the giant computer company since it entered the market in April, 1970.

¶The Minnesota Mining and Manufacturing Company will sharply intensify the marketing of its new VHS (Very High Speed) plain-paper copier.

¶The Savin Business Machines Corporation, the A. B. Dick Corporation and Litton Industries will announce or begin major marketing efforts for plain-paper copiers manufactured in Japan or licensed by Japanese concerns such as Canon, Recoh and Koneshiroku. Several smaller marriages between American marketing operations and Japanese technology are also expected.

American Photocopy Equipment, the A. B. Dick Corporation, the SCM Corporation, the Addressograph-Multigraph Corporation, the GAF Corporation and the Pitney-Bowes Corporation are all in the field, too, and trying to grow.

Xerox Is Confident of Position

Yet, when all is said and done it is likely that the kingpin of the industry, Xerox, will find its lofty position relatively undisturbed.

Xerox's introduction in 1959 of its Model 914 plain paper copier virtually created the industry as it is known today. Prior to the 914, the way to get multiple copies of a document was to send the job out to the printer, or if quality was not a consideration, then bothersome if not particularly difficult techniques, such as the preparation of some sort of master copy, as with a mimeograph, could be used.

The Xerox process is based on the familiar static electricity principle, such as is generated by a person walking across a carpet.

In the xerographic process, the image to be copied is projected through a lens onto a roller-shaped drum. An electrostatic charge on the drum picks up the image and powder is poured over the drum. This clings to the charged area to create a visible image on the drum.

Ordinary paper then is placed close to the drum and an opposite electric charge beneath the paper attracts the powder. The image is then fused to the paper by heat, with the whole process taking only seconds. Some copiers made by companies other than Xerox use treated paper that is electrostatically charged.

By 1963 the market for office copiers had grown to $500-million. This year is expected to reach about $3-billion worldwide, with approximately two-thirds of the total market in the United States and Canada.

Dominance Under Scrutiny

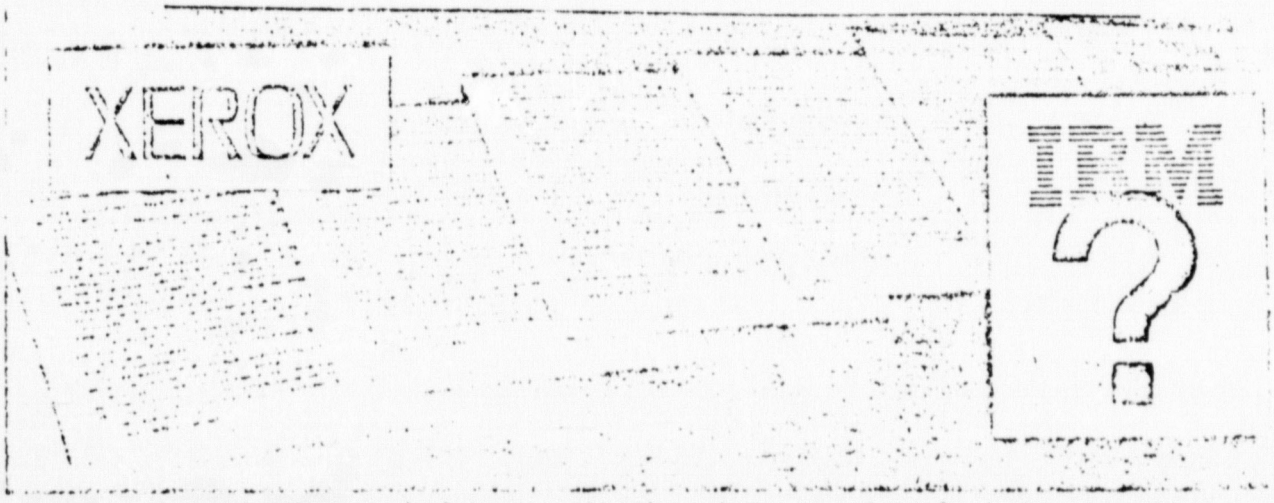
Xerox now holds more than 50 percent of this market, according to well-informed sources. Indeed this dominance has recently come under scrutiny of the Federal Trade Commission.

Xerox's dominance of the market is originally based on a strong patent position in dry copy electrostatic duplication based on research done by Chester Carlson.

This original strength has been supplemented by a powerful marketing service organization, that was patterned, ironically enough, on the model of I.B.M.

This combination of marketing

Continued on Page 66, Column 1



Xerox is the giant in the copier industry but I.B.M.'s marketing potential makes it the great unknown

Defendant's Reply Memorandum with Respect to Legal Sufficiency of Plaintiff's Request for Preliminary Injunction

patents has made Xerox a darling of Wall Street. It also made it the fifth fastest-growing corporation in the United States in terms of earnings per share during the years 1961 to 1971, with a compound rate of growth of 40.56 per cent for the period.

During this time Xerox introduced about a dozen machines, ranging from desk-top devices capable of producing 660 copies an hour to models with production capabilities of 3,600 copies an hour.

Plain-paper copying has encroached on other industries. It has almost eliminated the use of carbon paper for multiple copies in the United States. As duplicating speeds and quality have increased, copying has eaten into the printing and publishing businesses, creating along the way some interesting copyright questions, concerning rights of publishers. The introduction by Xerox and other copier companies of special features, including sorting, copy-size reduction and copying on both sides of a page, appears likely to create further inroads.

Xerox has thus far kept out of the low-speed end—less than 400 copies an hour—of the market, leaving this large but difficult segment to most of the 40 other manufacturers in the field. Mr. Sounders has said that the company is continually reassessing this market as to profit potential.

3M Has Most Machines

The No. 2 company in the industry is Minnesota Mining and Manufacturing. This concern has more machines in service than any other company, including Xerox. Many, however, are in the manual feed low-cost end of the market, in which 3M is the dominant factor. The company has also begun moving into speedier production with its VHS plain-paper copier.

Francis S. Webster Jr., vice president of the duplicating products division, commented: "We believe that the over-all copier business will continue to grow and that the lower end of the market will have its own successful growth patterns. As higher-speed copiers move in on markets previously held by low-speed devices, the low-speed models will find acceptance in places such as corner stores and homes."

I.B.M., of course, is the great unknown in the copier field. With its great marketing strength it has the potential to give Xerox a run for the copier money. Yet it has introduced only two machines and gives the appearance of being in no rush to enter into an across-the-board frontal attack on the Xerox position.

.....

Willard W. Pierce, office equipment specialist for Merrill Lynch, Pierce, Fenner & Smith, said:

"Xerox was hardly conscious of I.B.M.'s first machine as a market factor. The new machine will have a little more impact. Both machines will be successful as far as I.B.M. is concerned; but I.B.M. will not take a big slice of the industry in either the near or intermediate term. Rest assured, however, that I.B.M. is in the market to stay."

William F. Laughlin, vice president of marketing for the I.B.M. office products division, said that "we have exceeded expectations in both copiers we have introduced.

"It is a market with excellent growth potential and we feel that the copier fits in with our total concept of business equipment service," he added.

Xerox Not Standing Still

Xerox for its own part does not intend to stand still. "Our future is largely dependent upon the new products and systems which we intend to bring to the market and we are beginning to be more satisfied with our progress in this area," A. R. McCardell, president of the company, said at the annual meeting this year. "In the United States markets alone, we expect that within the next two years we will be introducing or announcing as many as 12 to 15 new products."

This would about equal the total of products introduced in the last decade.

The company said it would introduce a color copier but declined to identify other new product directions. Industry sources indicate, however, that the company will probably introduce a duplicator capable of producing more than 7,000 copies an hour and a very high speed xerographic computer printer.

None of the companies has much to say about the blending of copying and computer technologies, but industry analysts believe that any major innovations are several years in the future.

The prospect of price-cutting by the Japanese or the introduction of revolutionary new technologies are not seen as major threats at present by either industry or Wall Street.

An industry analyst commented, "Just having a good machine doesn't make a good competitor. It takes marketing and service support and these are not overnight creations."

The question whether the copying market is becoming saturated is often raised. Paul Bordwell of Argus Research contends that the industry is capable of maintaining its average 15 per cent growth rate in the forseeable future.

Xerox, 3M, I.B.M., SCM and the others appear to agree wholeheartedly with this assessment as they prepare to do battle for the copier dollar.

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Defendant's Reply Memorandum with Respect to Legal Sufficiency of Plaintiff's Request for Preliminary Injunction

WALL ST.JOURNAL -1/17/73

APPENDIX B

Van Dyk Research (over-the-counter), whose stock has risen sharply on the basis of having the fastest copier-duplicator available (4,000 an hour), will be forced to compete against a faster copier before year-end. Informed sources report **Xerox**, whose fastest unit produces 3,600 copies an hour, will unveil a model even faster than Van Dyk's this year. Maxwell A. Pollack, Van Dyk's president, says 1972 operating earnings weren't significantly different from 1971's. That year, net was 14½ cents a share, almost half of which was from capital gains. Revenue in 1971 was under $1 million. Currently, Van Dyk has three machines on rental and "orders for some," Mr. Pollack says. He declines to say how many. As for 1973, he says: "A lot will depend on our ability to get financing." At yesterday's close of 26 bid, the market value of the company's stock is almost $40 million, based on 1.5 million shares outstanding. Says one top office-equipment analyst: "It's an absurd market evaluation for a fast copier from a tiny company when you've got research giants like Xerox and IBM fighting for this business."

APPENDIX C

VAN DYK
RESEARCH CORPORATION

October 2, 1973

Dear Shareholder:

Since my last report to you, prospects for completing the merger with Apeco Corporation have diminished so materially that I want you to know that it looks as though Van Dyk will remain independent.

This does not affect our loan arrangement with Apeco, from which we have already drawn down $4,000,000, and we expect to pick up another million dollars this month.

We are immediately pressing forward vigorously with our original program of manufacture and marketing through our own dealer network. Incidentally, Apeco will continue as a dealer marketing the VAN DYK 4000.

In the meantime, we have been developing a strong manufacturing force, our production rate is growing steadily, more machines are being placed regularly with customers, and the customers are widely expressing themselves as being well satisfied. With a machine of the size and complexity of ours, it is absolutely vital to have a strong technical service department. You should know that this is one of Van Dyk's strengths, and we have received many compliments on the quality and performance of our technical service personnel.

I'm happy to tell you that we have placed over 50 machines with customers in the Metropolitan New York area, including some of the largest companies in America, and the rate of activity is beginning to accelerate.

One of the hurdles we have had to overcome has been credibility. I don't know how many times I've heard someone ask how a small company like Van Dyk could possibly turn out such a fine piece of equipment. Well, I'm proud to tell you -- we're beginning to make believers out of them.

Another hurdle we've had to overcome is the large number of pricing plans used by our major competitor. Our experience has convinced us that the customers much prefer a simplified plan, and we are currently announcing a plan which is very simple and the same for all customers. The first reactions to this plan have been very favorable because it is easily understood and the customers can quickly see how they're saving money.

ONLY COPY AVAILABLE

Defendant's Reply Memorandum with Respect to Legal Sufficiency of Plaintiff's Request for Preliminary Injunction

If you're going to be in the New York area the week of October 8th, stop in to the New York City Coliseum to see the VAN DYK 4000 in action. Four units will be on display in the booths of Apeco Corporation and Paul B. Williams, Inc. Incidentally, they expect 30,000 people to attend this show, which is called Business Systems Product World.

Regarding our future products, we have not been exactly idle, even if we have been limited by funds. I'm happy to tell you that our 20 bin sorter is well on its way, and we expect to be in production early in 1974. This unit attaches to the VAN DYK 4000 and opens up a very large additional market.

We have also been working on an international version of the VAN DYK 4000. Copying is growing fast in all countries of the world, and at the right time we will be expanding outside our borders.

Perhaps our potentially most important product will be the VAN DYK 8000. This is a modified version of our present machine which makes copies at twice our present speed, or 8000 copies per hour in the letter and legal sizes. We have been running this in prototype form, and it looks very promising. With the VAN DYK 8000 we hope to take dead aim on the offset printing market, which is much bigger than the entire office copying business.

Ours is a long term program which will continue to require large amounts of money for the foreseeable future. As you know, we have for years put a lot of money into research. Now we are putting large sums into a new manufacturing plant, a marketing and service organization, and into machine parts. Until our revenues from rentals and sales exceed these inputs, our cash flow will be in a negative position. Further, since we plan to continue our expansion program, our need for outside financing will also continue. However, this is not a new problem for Van Dyk, and I feel our prospects for growing success are continually improving.

Cordially yours,

VAN DYK RESEARCH CORPORATION

M. A. Pollack, President

MAP:tj

E 523

SCM'S REPLY MEMORANDUM IN OPPOSITION TO XEROX'S CONTENTION THAT AS A MATTER OF LAW INJUNCTIVE RELIEF IS NOT AVAILABLE

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,

Plaintiff,

-against-

XEROX CORPORATION,

Defendant.

Civil
No. 15807

SCM'S REPLY MEMORANDUM IN OPPOSITION TO XEROX'S CONTENTION THAT AS A MATTER OF LAW, INJUNCTIVE RELIEF IS NOT AVAILABLE ON SCM'S MOTION FOR A PRELIMINARY INJUNCTION

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E 524

SCM's Reply Memorandum in Opposition to Xerox's Contention That as a Matter of Law Injunctive Relief is Not Available

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF CONNECTICUT

SCM CORPORATION,

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-against-

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SCM'S REPLY MEMORANDUM IN OPPOSITION TO XEROX'S CONTENTION THAT AS A MATTER OF LAW, INJUNCTIVE RELIEF IS NOT AVAILABLE ON SCM'S MOTION FOR A PRELIMINARY INJUNCTION

Xerox's contention that, as a matter of law, SCM's motion for a preliminary injunction should be denied without a hearing is not supported by the authorities it advances in its Memorandum. Also, Xerox' Memorandum disregards the impact of the necessarily-assumed set of facts alleged in the Amended Complaint.

The authorities discussed in SCM's initial Memorandum (as do many of the authorities Xerox has itself advanced) support the existence of the Court's power here, on a proper factual showing, to fashion a broad range of injunctive relief. They demonstrate that it cannot be determined as a matter of law at this juncture that this Court is wholly

without power to grant any of the many types of relief that might conceivably be granted upon a hearing.

Quite naturally, most of the decisions cited by Xerox have involved denials of preliminary injunctive relief for various reasons, and most of the decisions cited by SCM involve the granting of such relief for various reasons. One common element to each and every one of those preliminary injunction decisions, by whomever cited, is that they all were rendered on a factual record developed on the preliminary injunction motion -- the element that Xerox seeks here to prevent.

What emerges from all those decisions is that the weighing and balancing process involved in determining a preliminary injunction motion always occurs upon and indeed requires a factual development, and that such a motion cannot be determined in advance of the parties' factual submissions*.

Xerox has not cited a single decision in which a preliminary injunction motion was denied in advance of the Court's consideration of a factual record. Unquestionably, the granting of that relief would be entirely unprecendented.

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* Presaged by a number of earlier decisions, the Second Circuit recently held that where (as here) material issues of fact arise on a motion for preliminary injunction, a hearing is required. SEC v. Spectrum, Ltd., 1973 CCH Fed. Sec. L. Rep. ¶94300 (2nd Cir.

At bottom, factual matters are embedded in the questions concerning likelihood of ultimate success on the merits and likely violations of statutes; immediate irreparable injury; the impact of the public interest; the need to prevent further private or public harm during the pendency of the action; balancing the relative hardships to the parties and the public if the injunction is granted or denied; "the preservation of the status quo" and the need to create or preserve a new or existing state of affairs or to alter or preserve the rights of the parties during the pendency of the action; and the need to protect the effectiveness of the Court's ultimate remedies. Only after a hearing can the Court determine the extent to which showings have been made as to these various factors, and the weight to be given to each in the balancing process involved in deciding the motion.

We now discuss a number but not all of the arguments and authorities advanced by Xerox. We do not attempt, except to the limited extent necessary, to repeat or summarize the arguments and authorities advanced in SCM's initial Memorandum.*

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* We note that at pp. 12-13 of SCM's initial Memorandum, a portion of Judge Mulligan's opinion in Danielson v. Local 275, 479 F.2d 1033 (2nd Cir. 1973), as printed in the Slip Opinion at p. 3301, was modified without changing its meaning or effect by deletion of the bracketed word and the addition of the underscored words as follows: "The failure to issue an injunction here maintains not the status quo, but protects what the Court below has found the [Board] Regional Director had reasonable ground to believe is a violation of the statute."

SCM's Reply Memorandum in Opposition to Xerox's Contention That as a Matter of Law Injunctive Relief is Not Available

POINT I

XEROX IGNORES THE ASSUMED SET OF FACTS AGAINST WHICH ITS DEMURRER MUST BE TESTED.

At the outset of its Memorandum, Xerox summarizes its contentions that the preliminary injunctive relief requested by SCM in paragraphs 49 through 53 of the Amended Complaint may not be granted as a matter of law and, therefore (at p. 4), "the Court need never reach the issue of whether SCM can establish a substantial likelihood of ultimate success on the merits of its antitrust claim." But Xerox errs.

The starting point in testing Xerox's demurrer to the effect that the Court lacks any power to grant in whole or in part the relief described in pars. 49 through 53 of the Amended Complaint, or any other or alternative or further relief after the preliminary injunction hearing,* is the assumption that SCM can show to a legal certainty the truth of its claims.

Among other things, SCM claims that Xerox unlawfully acquired and is continuing to exercise monopolistic and anti-competitive powers (by reason of its initial and continuing control over the skill and technology involved) on each of three levels

* See text at pp. 4-5, fn. at p. 5 and text and fn. at p. 66 of SCM's initial Memorandum regarding such relief. Xerox

(continued)

of activity relating to plain paper copying: skill and technology; manufacture; and marketing. SCM claims that Xerox here engaged and is continuing to engage in many unlawful acts and that the unlawful effects of those acts include the exclusion and restraint of SCM and other potential and actual competitors; the creation, maintenance and increase in the number, scope and impact of barriers to entry and effective competition by SCM and other potential and actual competitors; and the maintenance and increase of the size and scope of Xerox's monopoly. SCM claims that unless Xerox is restrained during the pendency of the action and permanently, Xerox will enlarge its already-existing large technological, manufacturing and marketing leads, thus further enlarging its monopolistic and anticompetitive powers, and further excluding or re-

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improperly disregards SCM's request for other or alternative or further relief which may be granted in light of the showings made at the hearing.

See also the supplemental opinion of Judge Herlands in Interphoto Corp. v. Minolta Corp. (S.D.N.Y. 1969). (Appendix A to this Memorandum, pp. A196-A204 of the Joint Appendix there.) In clarifying the preliminary injunction he had previously granted, he noted that "the order to show cause . . . did not contain the usual 'such other and further relief' clause but [counsel's] moving affidavit . . . asked for such other and further relief as to the Court may seem just and proper." (A200) In the light of that affidavit and of the complaint, it was "clear" to Judge Herlands that he had before him "a demand . . . for relief more extensive than merely preserving or maintaining the precise status quo" (A201), and Judge Herlands went on to grant a supplementary order granting relief which had not been specifically requested and as to a matter which was not specifically adverted to until after the prior proceedings. The Court of Appeals affirmed the granting of the supplementary order, 417 F.2d 621, 622 (2nd Cir. 1969).

straining the possible competitive efforts of SCM and others in the future.

If these and SCM's other claims are determined to be true, or likely to be true, on the record developed on the preliminary injunction motion, then there can be no doubt that SCM is suffering immediate irreparable injury as a potential competitor at the technology and manufacturing levels, and as a fledgling actual competitor at the marketing level. The continuing and growing restraints effected by Xerox threaten SCM's demise in those areas of activity, or at least threaten to stunt SCM's growth as a potential and actual competitor. Likewise, there can be no doubt that the public is suffering immediate irreparable injury in being required to bear the burden of Xerox's continuing monopolistic and anticompetitive practices, its power to extract monopoly profits and its power to deprive users of plain paper office copiers and the public generally of the benefits of competition which the antitrust laws are designed to protect and promote.

It has never been questioned that the Second Circuit has repeatedly held that the twofold requirement for a preliminary injunction is a demonstration of sufficient probability of success on the merits and a showing that sufficient irrepa-

rable harm will result if such relief is denied. (Xerox Memorandum, p. 31, quoting Gulf & Western, 476 F.2d at 692.) But as the court went on to say in Gulf & Western, as the balance of hardships tips decidedly in the moving party's favor, instead of the necessity of showing great likelihood of success, it becomes sufficient for that party merely to raise a serious question requiring further investigation in order to justify the granting of a preliminary injunction. Conversely, as we pointed out at p. 26 of SCM's initial Memorandum, as the strength of the moving party's showing increases with respect to likelihood of ultimate success, the extent of the showing needed with respect to irreparable injury is lessened.

This point was made most explicitly in Dino de Laurentiis Cinematografica S.p.a. v. D-150,Inc., 366 F.2d 373 (2d Cir., 1966). There the owner of a process for showing motion pictures on a widely curved screen sought an injunction against a producer from showing a film without using the process, claiming that the producer was obligated to use the process under a contract. The District Court denied the motion for several reasons, including the absence of a sufficient showing of irreparable harm. The Second Circuit reversed, despite the availability of contract royalties should plaintiff succeed at trial.

In this context, Judge Smith, speaking for the unanimous Second Circuit panel (366 F.2d at 375) stated that:

> ". . . the party seeking a preliminary injunction has a burden of convincing with a reasonable certainty that it must succeed at final hearing where it appears that a lack of showing of irreparable damage also exists. . . ."

In concluding that sentence, he went on to state that "the burden [as to likelihoodof success] is less where the balance of hardships tips decidedly toward the party requesting the temporary relief. The likelihood of success is 'merely one strong factor to be weighed along with the comparative injuries of the parties.'"*

Thus, as pointed out as a matter of principle, a party failing adequately to show irreparable injury may nevertheless obtain a preliminary injunction upon a sufficiently greater demonstration of likelihood of ultimate success.

On the facts of de Laurentiis, the Court's holding did not extend to the full limits of that principle. For there, the Second Circuit held that the moving party had made a "sufficiently clear showing of probable success" and a showing of "possible irreparable injury" (emphasis supplied). Accordingly, the Court directed the issuance of a preliminary injunction mandatorily directing the producer to show a particular film using the special process. We note here that the Court re-

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* Unicon Management Corp. v. Koppers Company, Inc., 366 F.2d 199 (2d Cir. 1966).

jected the District Court's holding that "the temporary relief sought would in effect alter rather than preserve the status quo and would give the movant all the eventual relief sought . . ." (366 F.2d at 374, 375); this aspect of the Court's holding is treated in our discussion below concerning "status quo."

Assuming, as Xerox must at this juncture, that SCM will do no less than make a convincing demonstration of the reasonable certainty of its ultimate success on the merits, the broad principle expressed by Judge Smith in de Laurentiis supports the existence of the Court's power to grant preliminary injunctive relief even in the absence of a showing of irreparable injury. But here the Court need not reach that principle, because of the showing of irreparable injury SCM can make and which it plans to make at the hearing.

Assuming SCM establishes the strong likelihood of ultimately sustaining its allegations in the Amended Complaint concerning Xerox's unlawful acts and their unlawful effects, that very demonstration of Xerox's unlawful obstruction of competition and interstate commerce - its exclusions of and restraints upon others - will necessarily also show that SCM, as one of the group of potential or actual competitors, has been and continues to be excluded and restrained from attempting to compete in any plain paper office copying activities, and that it and the public have thereby been irreparably injured.

SCM's Reply Memorandum in Opposition to Xerox's Contention That as a Matter of Law Injunctive Relief is Not Available

Xerox again ignores the set of facts which it must now assume to be true in its discussion of SCM's request for relief against Xerox's alleged control over the world's personnel skilled in xerography, a position of control which Xerox achieved in material part by use of restrictive employment agreements*. Xerox, solely on its unsupported assertion that the restrictive agreements have been "abandoned," concludes that SCM's request is "moot and it need not be further discussed." (Xerox Memorandum, page 3.) But paragraph 53 of the Amended Complaint states as follows:

> "During the pendency of this action, Xerox should be enjoined against enforcing or attempting to enforce the agreement described in subparagraph 27(d)".

In paragraph 27(d) of the Amended Complaint, it is alleged that since 1961 Xerox's acts and practices included:

> "requiring its research, scientific and technical personnel, and since 1970 its managerial and professional personnel, to execute written restrictive agreements preventing or restraining them from engaging in xerographic activities for any other company following termination of employment with Xerox."

Xerox's answer denies those allegations except admits that until 1970 Xerox entered into agreements with re-

* As SCM will show at the hearing, other devices were also used by Xerox to achieve and maintain that control, including exclusive agreements with other professional and skilled personnel who were not employees, and the purchase of other companies for the purpose of securing the services of their professional and skilled personnel.

search, scientific and technical employees whereby they agreed, following termination of employment with Xerox, not to engage in xerographic activities with other companies. Thus, the pleadings do not show that the issues concerning Xerox's restrictive agreements are moot; rather, the pleadings show a factual issue requiring determination by the Court.

SCM intends to show at the hearing that technology and personnel skilled in that technology are vital in attempting to compete with Xerox's plain paper office copying activities and that Xerox's unlawful acquisition of control of "about 95% of the world's personnel proficient in xerography" (Amended Complaint ¶27(e)) substantially contributes to its monopoly power respecting technology. On this showing, it may very well be that not only will the Court grant the relief requested in paragraph 53 of the Amended Complaint, but that it will also "freeze" Xerox in its present position by prohibiting further enlargement of its professional and technical staff in the field of xerography. Surely the issues thus presented may not be casually dismissed as moot.

Also, attempting to avoid the impact of the necessary assumption of the truth of SCM's claims or at least the strongest likelihood of SCM's ultimate success on the merits, Xerox has advanced a new contention in the footnote at page 4 of its brief, to which we now turn.

SCM's Reply Memorandum in Opposition to Xerox's Contention That as a Matter of Law Injunctive Relief is Not Available

Hard on the heels of its earlier expressed contention that the pre-trial discovery on market, damages and other substantive issues to which it is allegedly entitled will be massive and exhaustive, Xerox now says that in view of the breadth of SCM's charges, the factual and legal issues to be determined on the preliminary injunction motion are "gargantuan." Xerox then says:

> "The Court could not conceivably make an informed determination as to the likelihood of SCM's ultimate success on the merits on anything short of a full trial of all the relevant facts - a proceeding not within the realm of practical possibility at a preliminary injunction hearing."

Thus, Xerox says that given irreparable injury, and given likelihood of success, nevertheless, the very pervasiveness of Xerox's activities here challenged has somehow placed Xerox beyond the reach of this Court. Of course, that challenge to the Court's ability to hear and determine a preliminary injunction motion must be summarily rejected.

Also, Xerox's contentions concerning the "gargantuan" task of adjudicating SCM's claim can only mean that Xerox considers that final adjudication of this action after completion of the massive pre-trial discovery Xerox seeks, the plenary jury trial which it demands and the last appeal, is many, many years distant, into the indeter-

minate future. This more than underscores the need for stringent preliminary injunctive relief during the pendency of the action in order to protect the Court's ability to grant effective final injunctive relief and to insure that the possibility of creating competition against Xerox does not disappear as its power grows over the years to come. Xerox has also more than confirmed the pertinence of the discussion in our main Memorandum (at pp. 48-51) of the protracted proceedings in the El Paso litigation, and the problems in granting final relief as a result of the absence of preliminary relief.

SCM's Reply Memorandum in Opposition to Xerox's Contention That as a Matter of Law Injunctive Relief is Not Available

POINT II

SCM WILL BE IRREPARABLY INJURED ABSENT PRELIMINARY RELIEF

Xerox's Unilateral Waiver of some Patent Rights Recognizes the Irreparable Injury to SCM and is not a Reason to Deny a Hearing.

Section 154 of the Patent Act grants the patentee during the term of the patent the right to exclude others from using, making or selling the patented invention. Other provisions of the Patent Act give the patentee the right to seek preliminary and permanent injunctive relief against infringers and contributory infringers; the right to seek damages against such infringers and contributory infringers, and under the statute and established case law, the right to seek up to treble damages for wanton and willful infringement.

If, as Xerox contends in this action, its massive armory of U.S. patents and patent applications have been lawfully aggregated and their rights may be lawfully exercised, and if, as Xerox also contends, there is no possibility of any irreparable injury to SCM arising from the possible threat of enforcement of those patent rights, it would seem unlikely that Xerox would waive any of its patent rights, even a limited measure of them. But apparently, considering that SCM has at least raised a serious question as to the law -

ness of the exercise of those rights, and the possibility of irreparable injury, Xerox has for the first time, insofar as SCM has known,* waived some of its patent rights. It has done so unilaterally in an attempt to bolster its argument concerning the alleged absence of any alleged irreparable injury, and in an attempt to preclude any hearing on the merits of SCM's motion for a preliminary injunction.

Specifically, Xerox has now waived its right to seek preliminary injunctive relief in any patent infringement proceedings brought by Xerox against SCM or any of its suppliers, presumably including Van Dyk, relating to plain paper office copying during the pendency of this action (Xerox Memorandum,

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* Xerox states at p. 19 of its Memorandum that it "already unequivocally represented both to SCM and to the court in chambers that, should it choose to commence a patent infringement action against SCM it will not seek a preliminary injunction to enjoin the infringement during the pendency of the suit." (Emphasis in original.)

No one appearing on SCM's behalf at the chambers conferences of either September 12 or September 21, 1973 recalls any such representation, unequivocal or otherwise; and none of the notes taken at those conferences by anyone appearing on SCM's behalf reflect any such representation. In any event, subsequent to those conferences SCM did not receive from Xerox any written confirmation of any such representation.

Xerox does not claim that it made any assurances with respect to customers or suppliers prior to the service of its present Memorandum.

pp. 19, 24). The other assurance given by Xerox is that it will not bring infringement proceedings of any kind against any customers of SCM.

Xerox has not given any assurance that it will not threaten or commence any patent infringement actions for permanent injunctive and damage relief against SCM or its suppliers. Xerox's ability to burden SCM with the potentially enormous expense of defending any such actions and with the threat of a treble damage recovery for alleged wanton or willful infringement* is itself one of the anticompetitive weapons which Xerox may use to force SCM or small supplier companies such as Van Dyk to abandon attempts to compete. (See Blonder-Tongue v. University Foundation, 402 U.S.313, 346-347 (1971)). Moreover, as SCM will also show at the hearing, Xerox has previously employed the threats and maintenance of patent infringement litigation to deter or inhibit the potential competitive efforts of others. (See para. 27(p) of the Amended Complaint.) Thus, the "Sword of Damacles" still hangs over SCM.

Xerox does not make clear that its assurances not to seek preliminary injunctions against SCM or any of its sup-

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* Section 284 of the Patent Act. See, e.g., paragraphs 83, 84, 88 and 89 of Xerox's Answer. In those paragraphs of Xerox's second and third counterclaims, it is alleged that SCM wantonly and willfully infringed Xerox's Middleton & Reynolds '006 patent and the Mayer '884 patent in connection with SCM's coated paper office copiers.

pliers or to bring any infringement proceedings against any customers applies only in the United States, or whether it also applies elsewhere in the world where other companies such as Rank-Xerox operate under its control. As SCM will show at the hearing, SCM plans to market Van Dyk American-made plain paper office copiers in Europe and elsewhere abroad. Will those efforts face patent proceedings in the United Kingdom as were initiated by Rank-Xerox against IBM? Will those efforts face the kind of proceedings which Rank-Xerox was reported in the press to have initiated in France, where a potential competitor's documents and equipment were seized at the outset of the patent enforcement proceedings? (See "Rank Xerox serves patent writs on rival", Manchester Guardian, May 21, 1973.)

But regardless of what assurances Xerox makes, the fact that Xerox makes them is no ground for precluding a hearing on SCM's motion for preliminary injunction. It is no ground because there has been no judicial determination that the relief that Xerox itself deems to be sufficient is in fact sufficient in light of the showing to be made of the need for more stringent preliminary injunctive relief.

Directly in point is United States v. Columbia Steel Co., 71 F.Supp. 734 (D.Del. 1947). In that case, the United States commenced an action in February, 194 alleging con-

tinuing violations of the Sherman Act. The government made a motion for a preliminary injunction to enjoin the defendants from taking any action to consummate an acquisition agreement, and the motion was set down for a hearing to be held on March 14, 1947. On March 7, the defendants filed a unilateral stipulation in which they asserted that the proposed purchase would not be closed prior to the entry of final judgment in the action by the trial court, until after the action was dismissed or until the entry of an order by the court relieving the defendants from the stipulation. The stipulation also asserted that, subject to that foregoing agreement, the dependents considered themselves free, as they might be advised, to conduct stockholder meetings and complete other formalities in connection with the proposed transaction short of its consummation.

The Court held as a matter of law that defendants stipulation did not, and could not, preclude the holding of a hearing on the preliminary injunction motion. In conclusion, the court stated and held (71 F.Supp. at 736-737):

> "The defendants insist that the terms of the 'stipulation' present and embody the reasonable extent of injunctive relief to which the plaintiff will be entitled after a hearing on the motion for preliminary injunction. For this they cite many cases, a review of which will not be made at this time. It is not impossible that the contention of

the defendants may be true and that the 'stipulation' does contain all the relief to which the plaintiff will eventually be entitled. The scope and extent of the injunctive relief, however, can only be properly determined in accordance with the cited statutes and rules after a hearing on the motion for preliminary injunction."

Here, Xerox has arrogated unto itself the judicial function of determining what interlocutory relief should be sufficient to protect SCM, its suppliers and customers during the pendency of the action. Rather than precluding a hearing, Xerox's tender of relief underscores SCM's contentions that it is irreparably injured and that a hearing is needed to determine the proper scope of relief.

Other Aspects of Irreparable Injury.

Xerox makes an elaborate argument (pp. 19-22) that SCM is just as well off in attempting to compete in plain paper office copying activities with or without a license from Xerox; and that therefore (Xerox Memorandum, p. 22): "Denial of a mandatory licensing injunction cannot injure SCM at all, and its claim of irreparable injury simply evaporates into thin air." Xerox's argument is directly refuted by Zenith Corp. v. Hazeltine, 395 U.S. 100, 120 (1969). The Court there pointed out that Zenith attempted to operate in Canada without a

patent license from the patent pool (the "CRPL"). It went on to hold:

> "This deprivation in itself necessarily had an impact on Zenith and constituted an injury to its business. We find singularly unpersuasive the argument that Zenith was as well off without a license as with one. This is little more than an assertion that pool licenses, from which CRPL and its participants enjoyed substantial income, were without value. Without the license, doing business in Canada obviously involved weighty risks for Zenith itself, besides requiring it to convince the trade that it could legally and effectively do business without clearance from CRPL." (Emphasis supplied.)

Xerox's other arguments concerning irreparable injury also may not be sustained as a matter of law; they at least raise factual issues requiring a hearing. Xerox contends, for example, that the fact that SCM has entered into a contract with Van Dyk to market Van Dyk-made copiers demonstrates as a matter of law the absence of any need for any further relief (Xerox's Memorandum pp. 22-23). That contention strains credulity, but at minimum it is a contention which creates an issue of fact.

In the first place, SCM's attempts to market a copier in competition with the Xerox "3600" have no pertinence to SCM's potential competitive efforts at the technical and manufacturing levels. SCM still needs access to Xerox's monopolistically controlled technology and skilled personnel.

SCM's Reply Memorandum in Opposition to Xerox's Contention That as a Matter of Law Injunctive Relief is Not Available

Secondly, Xerox would have the Court find as a matter of law that SCM cannot need relief because of its incipient efforts on a relatively small scale to market one model in competition with the Xerox "3600", only one of Xerox's 18 models. We have already discussed in SCM's main Memorandum (pp. 61-63) that even that limited competition was threatened two weeks after its birth by Xerox's announcement of its planned introduction in 1974 of its new Ardri copier. Moreover, SCM is not even attempting at present, and is without the means to offer plain paper office copier competition against Xerox, even on a marketing level, with respect to the many other Xerox models.

Thirdly, merely because SCM, despite the enormous restraints imposed by Xerox during the past 10 years, is now first able to attempt to become an actual competitor on a relatively small scale at the marketing level, does not in any way demonstrate that Xerox is not continuing to exercise monopolistic powers, or that the unlawful effects of that power will not continue during the pendency of the action. As Judge Higginbotham said, the fact that a monopolist did not prevent the birth of a competitor does not mean that the antitrust laws must await its death and then attempt to resurrect it. (Philadelphia World Hockey, 351 F.Supp. at 510.)

Xerox's arguments concerning the alleged absence of irreparable injury because of the possibility of money damages

are equally misplaced. As shown in SCM's initial Memorandum at pp. 28-30, and cases cited by Xerox*, injury is irreparable when there is uncertainty or difficulty in computing the amount of damages. Regardless of whether some damage relief may ultimately be available, the doctrine of irreparable injury flowing from the uncertainty or difficulty of computing damages is not based on the total absence of the availability of monetary damages, but on the inadequacy of money damages due to uncertainties or difficulties in computation.

Here, each day that the vast bulk of the world's innovation in the skill and technology of plain paper office copying is funneled into Xerox's hands for its exclusive use; each day that Xerox acquires more "blocking patents" that prevent entry by others; each day that Xerox acquires more secret technology; each day that it increases its research, manufacturing and marketing magnitude; in short, each day that Xerox's exclusive control of the relevant skill and technology, and its manufacturing and marketing powers grow broader and stronger, the barriers and restraints to entry and competition upon SCM and others grow larger. Each day, Xerox's technological, manufacturing and marketing lead grows bigger, the risks upon attempting entry grow higher, the expense of challenging Xerox in the marketplace grows greater, and Xerox's stranglehold on the market grows tighter.

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* See e.g., Checker Motors Corporation v. Chrysler Corporation, 405 F.2d 319, 324 (2d Cir. 1969); Foundry Services v. Benelux Corporation, 206 F.2d 214, 216 (2d Cir. 1953) (concurring opinion of Judge L. Hand).

The fa that the effects of Xero strengthening its market position and increasing barriers to entry are difficult of precise measurement, does not mean, as Xerox would have the Court find, that these effects do not exist and that SCM and the public are not injured; rather, it is this very difficulty of measurement that makes the resultant harm to the public and to potential and actual competitors including SCM, all the more irreparable.

Irreparable Injury Under Section 16 of the Clayton Act.

Xerox bases one of its arguments concerning irreparable injury on its contention that Section 16 of the Clayton Act is meaningfully different from Section 15 of the Clayton Act. Section 16 accords private parties the right to seek injunctive relief and contains the words "immediate harm" in connection with the granting of preliminary injunctive relief. Section 15 accords the government the right to seek injunctive relief and does not contain those words. If this difference is meaningful, SCM intends to show the existence of "immediate harm". As we have discussed above and in SCM's main Memorandum, SCM contends that Xerox's monopoly injures it and the public every day that passes; it causes "immediate harm" to SCM and the public.

But in any event, as Judge Frank stated in Hamilton Watch, Section 16 of the Clayton Act in respect of preliminary

injunctions is "declaratory of the usual rule relative to the exercise of [the Court's] discretion" in ordering a preliminary injunction. (206 F.2d at 742-43.)

The claimed dichotomy between Section 15 and Section 16 of the Clayton Act was put to rest in Zenith Corp. v. Hazeltine, 395 U.S. 100, 130 (1969), where the Court held that Section 16 "was enacted by the Congress to make available equitable remedies previously denied private parties" and that it "invokes traditional principles of equity and authorizes injunctive relief upon the demonstration of 'threatened' injury". As the Court went on to say, speaking of permanent relief, but with equal applicability to preliminary injunctive relief granted under the same section of the Clayton Act:

> "That remedy is characteristically available even though the plaintiff has not yet suffered actual injury, . . .; he need only demonstrate a significant threat of injury from an impending violation of the antitrust laws or from a contemporary violation likely to continue or recur . . . .
>
> Moreover, the purpose of giving private parties treble-damage and injunctive remedies was not merely to provide private relief, but was to serve as well the high purpose of enforcing the antitrust laws . . . . Section 16 should be construed and applied with this purpose in mind, and with the knowledge that the remedy it affords, like other equitable remedies, is flexible and capable of nice 'adjustment and reconciliation between the public interest and private needs as well as between competing private claims.' . . . Its availability should be 'conditioned by the necessities of the public interest which Congress has sought to protect.'" (395 U.S. at 130-31) (Citations omitted)

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POINT III

XEROX's ALLEGED DEFENSE OF LACHES TO THE GRANTING OF PRELIMINARY INJUNCTIVE RELIEF IS MISPLACED AND, AT MINIMUM, INVOLVES ISSUES OF FACT WHICH CANNOT BE DISPOSED OF AS A MATTER OF LAW AT THIS JUNCTURE

In its Memorandum (pp.28-29) Xerox contends, in effect, that because Xerox first refused in 1963 SCM's request for a patent license with respect to plain paper office copying (a request which has been repeatedly renewed and refused since that time up to the present), (see par. 27(n) of the Amended Complaint), SCM is not entitled as a matter of law to any preliminary injunctive relief.

Xerox alleges in paragraph 70 of its Answer the defense of laches. If Xerox persists in advancing that defense, SCM intends to show at the hearing that Xerox's claim of laches in the facts and circumstances here presented cannot be sustained. Thus, even assuming the legal sufficiency of Xerox's pleading of the defense of laches, a factual issue is presented. The cases cited by Xerox with respect to laches stand only for the principle that on the facts presented in those cases, the laches defenses in those particular types of actions were sustained.

But regardless of the facts, laches is not available as a defense as a matter of law in cases like this. Xerox's contention flies in the face of the long-established principle expressed by Circuit Judge Sanborn that "even acquiescence in past continuing injury does not

estop their victim from enjoining their future continuance." Love v. Atchison, Topeka & Santa Fe R.R. Co., 185 Fed. 321, 332 (8th Cir. 1911). The decision in that case was expressly approved in Ohio Oil Co. v. Conway, 279 U.S. 813 (1929). (See also Judge Frank's extensive quotation from Love in Hamilton Watch, 206 F.2d at 743 fn.10; United States v. American Technical Industries, Inc., 1974 Trade Cas. ¶ 74,873 (M.D. Pa.).)

Further, in Perma-Life Mufflers v. International Parts Corp., 392 U.S. 134 (1968), the Court abolished the defense of in pari delicto in antitrust cases because of the paramount public interest in litigating and seeking the elimination of antitrust violations, even where, in the facts there presented, the plaintiff participated in and reaped some of the benefits of the illegal transactions. See also Lear v. Adkins, 395 U.S. 653 (1969) where the Court held that the paramount public interest in litigating the validity of patents was sufficient to override a contractual obligation otherwise. It would seem to follow as a matter of law because of the continuing nature of the violations alleged and because of the public interest in litigating antitrust claims on their merits, that laches is not available as a defense for Xerox.

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POINT IV

THERE ARE NO HARD AND FAST RULES CONCERNING THE PRESERVATION OF THE STATUS QUO

Xerox contends that Warner Bros. Pictures, Inc. v. Gittone, 110 F.2d 292 (3rd Cir. 1940) establishes an absolute rule that preliminary injunctive relief cannot be granted so as to give the moving party a new status or new rights during the pendency of the action which it never previously enjoyed. (Xerox Memorandum, p. 10.)

In this Point, we further buttress the showing made in SCM's initial Memorandum that the Court possesses broad power to create or preserve a state of affairs and to alter or modify rights of the parties during the pendency of the action as may be appropriate to protect against continuing harm and to assure the full effectiveness of a final decree if plaintiff ultimately succeeds. We further buttress the conclusion that in doing this the Court is not precluded from granting preliminary injunctive relief by reason of which the moving party acquires a new status or new rights during the pendency of the action which it never previously enjoyed.

Initially, we point out that the concept of "preserving the status quo" is only one reason for, but not an essential requirement in, the issuance or denial of a preliminary

injunction, and that entirely apart from any consideration of the status quo, a preliminary injunction can be granted to avoid irreparable injury. See, for example, Ross-Whitney Corp. v. Smith, Kline & French Lab., 207 F.2d 190, 199 (9th Cir. 1953) (cited and relied on by Xerox at p. 9 of its Memorandum):

> "The maintenance of the status quo is only one of the reasons for which a preliminary injunction may be granted. It may also be granted to prevent irreparable injury."

Ross-Whitney was cited as an example by Judge Lumbard in Unicon Management Corp. v. Koppers Company, 366 F.2d 199, 204 (2nd Cir. 1966) (discussed at p. 13 of SCM's initial Memorandum) when he said:

> "Other courts have granted preliminary relief without regard to establishing the status quo, as long as there was a showing of potential irreparable harm. . . ."

Further, as shown in SCM's initial Memorandum, and as expressed by Judge Mulligan in Danielson and other cases, the status quo to be preserved can never be a situation in which a likely violation of a statute expressing public policy may be permitted to continue during the pendency of the action.

Our main Memorandum (at pp. 12-24) discussed numerous cases showing that there is no such absolute rule preventing a court, in granting preliminary injunctive relief, from creating a new status or new rights. Those cases include National

Letter Carriers, Unicon, Philadelphia World Hockey and MCI, in all of which the Courts involved directed or affirmed the granting of preliminary injunctive relief by reason of which a new state of affairs or new rights which never previously existed was created or conferred upon the moving party. See also 78 Harv. L. Rev. 994, 1056 et seq. (1965).

To the list may be added di Laurentiis, discussed above at pp. 7-9, where the District Court denied the requested injunction requiring a party to use particular equipment in exhibiting a film that it had never used before. The District Court advanced as one reason that such relief would change the status quo; the Second Circuit reversed and granted the injunction. (366 F.2d at 373.)

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Another case issuing a preliminary injunction creating a new state of affairs is Interphoto Corp. v. Minolta Corp., 417 F.2d 621 (2nd Cir. 1969), which is relied on by Xerox (Memorandum, p.8) but which, in fact, provides additional strong support for SCM's position*.

In Interphoto the defendant had terminated the plaintiff's distributorship agreement. Initially, Judge Herlands in the District Court had found a likely anti-trust violation and irreparable injury, and so enjoined the refusal to deal. Thereafter, Judge Herlands entered a supplementary order (see Appendix to this Memorandum) directing defendant to deliver goods to plaintiff in California, although that State had been excluded from the original distributorship agreement and although the defendant had never before shipped any goods to the plaintiff in California.

Judge Herlands rejected the defendant's argument that the temporary injunction should be limited only to a continuation of the pre-existing arrangement between the parties (A197, A199, A200 et seq.) He explained that although his original opinion "speaks of maintaining the status quo," he

* See also Stell v. Savannah-Chatham County Bd. of Educ., 318 F.2d 425 (5th Cir. 1963), a desegregation case in which an entirely new state of affairs was created during the pendency of the appeal; Oliver v. Kalamazoo Board of Education, 346 F.Supp. 766 (W.D. Mich. 1972).

had gone further by ruling "that the defendant was also restrained from imposing any unlawful restraint on the plaintiff." (A200)

Interphoto is thus a case where there had been prior dealings as to some matters, and a prior refusal to deal as to other matters. MCI is also such a case, as is this case. In both Interphoto and MCI, the injunction against the refusal to deal directed a course of dealings between the parties which theretofore had never existed and which conferred new rights on the plaintiff which it had previously never possessed.

On appeal in Interphoto defendants argued (Appellant's Brief, p. 22) that under Warner Bros. v. Gittone and other authorities the Court did not possess power to create a new arrangement between the parties, but could only continue the pre-existant arrangement under which the parties had been dealing. The Second Circuit rejected that argument and affirmed the District Court's decision on this point. (417 F.2d at 622)

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Warner Bros. v. Gittone was also argued to the Court by the unsuccessful defendant in Philadelphia World Hockey. (E.g., Defendant's Memorandum in Opposition to Plaintiff's Motions for Preliminary Injunctive Relief of October 7, 1972, at p. 18.) Judge Higginbotham, sitting within the Third Circuit, nevertheless altered the status quo with the preliminary injunction order he issued. MCI was also decided by a district judge in the Third Circuit. In fact, four recent Third Circuit decisions -- all post-Warner Bros. -- discuss generally the considerations on a preliminary injunction motion.* None sets forth any absolute rules concerning status quo; indeed, none even cites Warner Bros.

Warner Bros. has been cited in a number of subsequent decisions for the general principle that the status quo to be preserved is, ordinarily, the last peaceable uncontested status

* Commonwealth of Pa. ex rel. Creamer v. U.S. Dept. of Agr., 469 F.2d 1387 (3rd Cir. 1972); In re Penn. Central Transportation Company, 467 F.2d 381 (3rd Cir. 1972); Winkleman v. New York Stock Exchange, 445 F.2d 786 (3rd Cir. 1971); Nelson v. Miller, 373 F.2d 474 (3rd Cir. 1967).

between the parties. With the exception of two decisions rendered by the same district judge in New Jersey*, Warner Bros. has been cited as standing for that general proposition, but not as setting any absolute or hard and fast rule.

For example, Xerox cites Tanner Motor Livery Ltd., v. Avis, Inc., 316 F.2d 804 (9th Cir. 1963), cert. denied, 375 U.S. 821 (1963), as being "in accord" (Xerox Memorandum, p. 7) with the so-called absolute rule.** But the Ninth Circuit, while stating the general proposition that the status quo is the last uncontested status which preceded the pending controversy, went on to say (316 F.2d at 809):

> "We are not to be understood as stating that the foregoing principles are hard and fast rules, to be rigidly applied to every case regardless of its peculiar facts. The infinite variety of situations in which a court of equity may be

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* Barbys Frosted Foods v. McDonald's Corp., 1973-2 Trade Cas. ¶74,622 (D. N.J.); Pitman-Moore, Inc. v. The Dow Chemical Co., Civ. No. 480-73 (D. N.J. July 13, 1973) (unreported). These two cases are discussed at pp. 12-13 of Xerox's Memorandum.

** Contrary to Xerox's contention (Memorandum pp. 11-12, 16), Mieselman v. Paramount Film Distributing Corp., 180 F.2d 94 (9th Cir. 1950) the only other case cited by Xerox in that regard, does not follow or express any absolute rule allegedly established by Warner Bros. In Mieselman, the Court's sole holding was that the District Court did not abuse its discretion in denying the requested injunction. (180 F.2d at 97.)

> called upon for interlocutory injunctive relief requires that the court have considerable discretion in fashioning such relief. But the court's discretion is neither arbitrary nor unlimited; it is to be guided by the principles long established in courts of equity, and a departure from those principles is justified only where the practicalities of the problem with which the court is faced require it."

See also, National Letter Carriers (discussed at p. 14 of our main Memorandum); and Omega Importing Corp. v. Petri-Kine Camera Company, 451 F.2d 1190, 1197 (2nd Cir. 1971), where Chief Judge Friendly said that generalities concerning preservation of the status quo:

> "... are less useful in deciding concrete cases than is sometimes thought; often they merely rationalize conclusions already reached. They are somewhat reminiscent of canons of statutory construction, with respect to which, as Professor Llewellyn amusingly demonstrated, every thrust has an equivalent counterthrust. See also National Ass'n of Letter Carriers v. Sombrotto, 449 F.2d 915, 921 (2d Cir. 1971)."

In the end, the only authorities cited by Xerox which support its contention that Warner Bros. established any absolute rule against preliminary injunctive relief creating a new status or conferring new rights are the two decisions rendered by the same district judge in New Jersey. In light of the very substantial and more authoritative body of law which has rejected the existence of such an absolute principle, including binding precedent in this Circuit, we respectfully suggest that those two New Jersey district court decisions express an inaccurate view as to that single point of law.

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POINT V

VIEWING THE STATUS QUO MOST RIGIDLY AS THE STATE OF AFFAIRS AND THE RIGHTS OF THE PARTIES AS THEY EXISTED AT THE COMMENCEMENT OF THE ACTION (THE "STATUS QUO ANTE LITEM"), THERE STILL EXISTS BROAD POWER TO GRANT PRELIMINARY INJUNCTIVE RELIEF TO RESTRAIN XEROX FROM ALTERING THAT STATUS QUO DURING THE PENDENCY OF THE ACTION.

In this Point, we put aside our arguments concerning the existence of the Court's power in this case to grant preliminary injunctive relief based on the authorities which hold that the status quo to be preserved can never be a situation in which a likely violation of a statute expressing public policy can be permitted to continue; the authorities which hold that the preservation of the status quo is only one, but not an essential element to be considered in determining whether to issue or deny a preliminary injunction; the authorities which hold that a preliminary injunction may create a new state of affairs or confer new rights which had never previously existed; and the other authorities which have held that the status quo to be preserved can be something other than the status and the rights which existed at the commencement of the action. We assume arguendo for purposes of discussion in this Point that there is an absolute rule, as Xerox contends, which precludes the granting of preliminary injunctive relief which changes the state of affairs as it existed at the time of the commencement

of the suit or which confers new rights on the moving party which it did not possess prior to that time.

Despite all of these assumptions for the sake of argument, there still exists on the facts in this case a broad range of judicial power to grant preliminary injunctive relief and, therefore, Xerox still cannot sustain its contention that as a matter of law there should be no hearing on SCM's motion for preliminary injunction.

Xerox cites and relies on (Xerox's Memorandum, p. 6) American Mercury v. Kiely, 19 F.2d 295 (2d Cir. 1927). There the Court stated that

> "Such provisional or preventive remedy [the preliminary injunction] is given to preserve the status quo and to prevent further perpetration of acts which might materially endanger the complainant. Usually a temporary injunction contemplates relief where, without it, final relief would be of no avail to the complainant." (19 F.2d at 297)*

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* Xerox also quoted from this case, giving only a fragment of the language here set forth. A number of the decisions cited by Xerox in its Memorandum are, as in this instance, quoted only in fragments, sometimes out of context. A number of other decisions are described by Xerox only in an abbreviated fashion or are taken out of context from decisions often factually inapposite. See, e.g., Xerox's citation of Sanders v. Airline Pilots Ass'n, 473 F.2d 244 (2d Cir. 1972) at p. 29 of its brief, supposedly to "answer" SCM's contentions concerning the deterioration of SCM's position vis-a-vis Xerox as Xerox's monopoly power grows unchecked day by day. Sanders was a labor case involving a dispute between employees and their employer. It has no application at all to this case.

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Much of the relief SCM seeks is "to prevent further perpetration of acts which might materially endanger complainant." Much of the relief SCM seeks is to remove the continuing future obstruction to competition and interstate commerce. (See, e.g., Toledo, A.A. & N.M. Ry. v. Pa. Co., 54 Fed. 730 (C.C.N.D. Ohio (1893) SCM seeks a preliminary injunction as a "policing measure" (Hamilton Watch, 206 F.2d at 742) to prevent Xerox from doing harm during the pendency of the action.

Xerox asserts -- as does SCM -- that the relief requested in paragraphs 50 and 51 of the Amended Complaint (in par. 50 a prohibitory injunction against Xerox's threatening, commencing or maintaining any patent infringement action against SCM and in par. 51 the granting of a mandatory license to SCM with respect to Xerox's plain paper office copier patents) are substantive equivalents. Xerox then attempts to reason - erroneously -- that because a mandatory license cannot be directed because it would change the state of affairs and confer a new right to SCM during the pendency of the action, a prohibitory injunction against threatening, commencing or maintaining a patent infringement action against SCM during the pendency of the action also cannot be granted as a matter of law.

But this reasoning focuses only on the possible benefits to SCM. It does not focus on the permissible restraints against Xerox during the pendency of the action from committing new acts which might inflict harm on SCM. Thus, at the time of the commencement of the action -- the status at that time --

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Xerox had not commenced or maintained any patent infringement action against SCM with respect to any efforts by SCM to design, manufacture or market a plain paper office copier. Any such commencement or maintenance of an action by Xerox after this suit began is a new act, and, therefore, would alter the status quo ante litem. Assuming a sufficient showing as to the likelihood of violation and irreparable harm*, the Court has power to restrain Xerox from any such new likely act.

Also, insofar as any new acts by Xerox in threatening, maintaining or commencing any action against any customer or supplier of SCM, or any other new act which may threaten or impede SCM's ability to design, manufacture or market a plain paper copier, the Court has power to grant the relief requested in paragraph 50 of the Amended Complaint. As previously discussed, Xerox has, in effect, unilaterally already consented to a part of that relief.

Likewise, as we have previously pointed out, the Court has power, on a view of preserving the status quo ante litem, to grant the relief requested in paragraph 53 to restrain Xerox during the pendency of the action from any new act in attempting to enforce its allegedly restrictive agreements with its employees, assuming a proper showing of likely violation and harm.

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* We have previously discussed how the threat of such litigation may cause irreparable harm.

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Beyond all of the foregoing, based on the allegations of the Amended Complaint, the Court has power on a proper showing to grant preliminary injunctive relief to anesthetize the further continuing effects of likely past violations or to prevent the commission of new acts which may materially endanger SCM's incipient efforts as a potential competitor on the technological and manufacturing levels and as an incipient actual competitor on the marketing level.

Thus, as a further example in addition to those described in Point IV of SCM's initial Memorandum, paragraph 19 of the Amended Complaint alleges that Xerox has the continuing option to acquire exclusive ownership of all patented and unpatented Xerographic technology hereafter developed by Battelle. In its answer Xerox denied that allegation except admitted that under an agreement with Battelle Xerox was granted certain contingent rights to existing and future patents, patent applications and technical information of Battelle relating to xerography. Paragraph 20 of the Amended Complaint alleges -- and Xerox admits -- that "Since 1956 Battelle has engaged and continues to engage in xerographic research and development activities exclusively for Xerox" (emphasis supplied).

It follows that if the Court finds that Xerox's acquisition of exclusive control of Battelle-developed patents, patent applications and unpatented technology is a likely violation of Section 7 of the Clayton Act or Sections 1 and 2 of the

Sherman Act, the Court has the power to restrain Xerox during the pendency of the action from making further acquisitions of exclusive control to any new patented or unpatented technology developed by Battelle since the commencement of the action.

The same conclusions as to the Court's power apply with respect to patented and unpatented technology heretofore acquired or which Xerox may hereafter acquire from many others (see paragraphs 21, 22, 27(b), 27(k) and 27(t)(iii) of the Amended Complaint).

Without attempting any further detailed examination of the Amended Complaint, it cannot be doubted that as a matter of law the Court possesses the power, on a proper showing, to grant preliminary injunctive relief which (a) restrains Xerox from making any further purchases and acquisitions of relevant technology; (b) prohibits Xerox from entering into new cross-licensing agreements which give it exclusive use of relevant technology; (c) restrains Xerox from hiring any additional technical personnel skilled in the relevant technology; and (d) restraining Xerox from performing any other new acts upon a sufficient finding that such acts will constitute likely further violations of the antitrust laws or perpetuate further likely unlawful effects of such violations.

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Even on the most rigid view of preserving the status quo as it existed at the commencement of the law suit, Xerox is not immune from judicial interlocutory remedies. On a proper showing made at the hearing on SCM's preliminary injunction motion, the Court need not, and indeed should not, sit by and watch while Xerox's continuing acts during the pendency of the action endanger the incipient actual and potential competitive efforts of SCM at each of the three levels of activity involved in this case: technology, manufacturing and marketing. Upon a proper showing, the Court need not -- and should not -- sit by and permit Xerox, by any new acts during the pendency of the action, to endanger the public interest.

CONCLUSION

Xerox has failed to sustain its heavy burden of demonstrating as a matter of law that a hearing on SCM's motion for a preliminary injunction should not be held. Xerox has not sustained its heavy burden of showing that such motion should be denied without a hearing.

Dated: February 15, 1974

Respectfully submitted,

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Record of Proceedings of February 18, 1969

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

69 Civil 130

[SAME TITLE]

BEFORE: HON. WILLIAM B. HERLANDS, District Judge

New York, February 18, 1969
Room 619—10:00 a.m.

APPEARANCES:

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WHITMAN, RANSOM & COULSON, ESQS.,
Attorneys for Defendant,

FORBES D. SHAW, ESQ., of Counsel

The Clerk: Interphoto Corporation against Minolta Corporation. Hearing re motions. Counsel ready?

Mr. Litvack: Ready.

Mr. Shaw: Ready.

If you Honor please, I would first like to thank you for hearing this matter so promptly.

As I pointed out in my letter of yesterday to your Honor, a question has arisen under the temporary injunction order as to whether the plaintiff is entitled to place orders with the defendant, and the defendant is required to accept orders from the plaintiff, calling for shipment of Minolta products to the plaintiff anywhere in the continental United States.

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If your Honor will recall, the wholesale distribution agreement between the parties calls for the plaintiff to handle the distribution on a non-exclusive basis of those Minolta products designated by Minolta Corporation for sale to bona fide photographic retailers and to use its best efforts to promote the sale of those products within the continental United States with the exception of eleven states.

I think to make that more graphic, as your Honor can see here, these are the eleven states, including Alaska, which were excluded from the area where the plaintiff was to be the distributor.

As we read your Honor's order, temporary injunction order, and in the light of the opinion, we are to continue that arrangement, and while I would suppose in the light of your Honor's opinion insofar as it was based on the Schwinn case, we deliver products, Minolta products, to the plaintiff within this area, and we cannot control that any more, in fact, anywhere in the world, I don't think we are required to ship outside of that territory to the plaintiff and we would like a ruling on that.

Mr. Litvack: Your Honor, I am sorry that we had to take the Court's time with this problem.

First, as your Honor knows, we are a nation-wide distributor of photographic products. Second, in the past Minolta has delivered photographic products to Interphoto at its warehouse in Dallas, Cleveland, Philadelphia, New York, Chicago. We pay the freight. We placed an order—this all arises out of California, I might say—for delivery to California and we pay the freight. They have refused to deliver to California. Instead, what they want to do, they want to deliver it to us some place else, make us uncrate it, unship it and then take it from our warehouse in New York or wherever and ship it to California. There is no legitimate business reason for this, your Honor. I have asked for this. There doesn't seem to be a single

legitimate business reason. The only answer I have gotten so far is, "We don't have to." I think they do. It is an attempt to avoid the Court's order and to just further obstruct us.

All this would mean is we cannot effectively compete in California. They know that. It means we lose time. Some of their goods come into California. They want to ship from California to New York and then make us ship back to California. We lose weeks because that stuff is not flown. It comes by ship.

The Court has considered this problem. We are a distributor. The agreement is clear. The agreement says we are a non-exclusive distributor in the continental United States except thirteen states. Your Honor has read out those thirteen states.

They cannot impose that requirement upon us. Now they are seeking to do indirectly what they cannot do directly and continue to control the West Coast market.

I think that it is unfortunate we are here, but I think we are entitled to have these goods shipped to us at our expense. We are willing to pay for it and I see no reason why we should be hampered in this way.

It would also, I might point out—I am sure the defendant has considered this—greatly increase our cost. I don't mean the cost of shipping, but the cost of packing, unpacking and repacking again. We couldn't be competitive with them. I suggest to the Court they should not be allowed to do indirectly what it is quite clear they cannot do directly. So I respectfully request we have a ruling they ship to us at our expense any place in the United States as per the agreement and the Court's order.

Mr. Shaw: I would like to say one thing more, your Honor. I don't think your Honor has read out what Mr. Litvack has said are the terms of this agreement between us, and I would like to refer at this point to what was stated in Mr. Nakamura's affidavit before we had any business

dealings with this plaintiff. Apart from the 1965 dump, when we are talking about the agreements we have now, at that time the plaintiff demanded distribution in the West Coast and he was told at that time that the defendant would not under any circumstances give up its direct distribution on the West Coast which it had put a lot of money into because of the dump to start out there in 1966, in the spring.

The plaintiff knew, in July of 1967, and they were told those were the terms of the arrangement that the defendant wanted or there would be no arrangement, that Minolta would become its own direct distributors in other portions of the United States if he persisted in his demand. And again they go on to say, "We also insisted on a written agreement."

I submit to your Honor that we are compelled under your Honor's order to continue our relationship. I see nothing in the opinion as reading out anything else. All I understand is since the Schwinn case we cannot tell him when he gets material he cannot transship it over the territorial lines. We are in a situation now where he hasn't gotten the material yet and that is why I would like to have the ruling on it. I think what is happening now is that we are expanding the status quo, expanding the relationship between the parties to a point to all the United States and Hawaii as well. I don't think that is the tenor of what your Honor stated in your opinion.

The Court: Mr. Shaw, do you sell and deliver to other wholesale distributors in these thirteen states?

Mr. Shaw: Yes. Mr. Satter, the Satter Company in the mountain states, yes, sir. That is right here. Minolta is its own direct distributor in Washington, Oregon, California, Nevada, Arizona and Alaska.

In Hawaii there is a separate wholesale distributor. In New Mexico, Utah, Colorado, Wyoming, Idaho and Montana is the Satter concern.

A 200

Record of Proceedings of February 18, 1969

The Court: There are at least two wholesale distributors that you have referred to.

Mr. Shaw: Yes.

The Court: And those wholesale distributors to whom you have just referred cover how many of the states out of the thirteen?

Mr. Shaw: Eleven, I think it is. Seven out of eleven.

The Court: There is a statistical difference between you and Mr. Litvack as to whether it is eleven or thirteen. It was my impression it was thirteen.

Mr. Shaw: It is my impression it was eleven. I may be wrong. I think it is thirteen if you count Alaska and Hawaii. It is thirteen.

The Court: Of course Alaska and Hawaii are states.

Mr. Shaw: Yes, I understand. I don't think Hawaii is continental United States, but that is neither here nor there.

The Court: Counsel have asked the Court for a ruling in the nature of an interpretation of the interlocutory injunction order heretofore filed in this case on January 30th of this year. The Court did not sign a separate temporary injunction order but contained within its opinion and decision appropriate decretal provisions and the opinion and decision constitutes an order.

It is true that the Court's opinion speaks of maintaining the status quo, since that is the traditional function of a temporary injunction, but the Court also alluded explicitly to the Court's ruling that the defendant was also restrained from imposing any unlawful restraint on the plaintiff. The order to show cause filed January 13, 1969, did not contain the usual "such other and further relief" clause, but Mr. Litvack's moving affidavit sworn to January 13, 1969, paragraph 2, in its concluding sentence, asked for such other and further relief as to the Court may seem just and proper in the premises.

The complaint in the action dated January 13, 1969, in Section VII, which is the prayer for relief, among other things asked for a preliminary and permanent injunction

which restrained the defendant from refusing to deal with the plaintiff and further prayed for relief that the defendant should be restrained from imposing any unlawful restraint or unlawful interference with the plaintiff. So it is pretty clear that the Court had before it a demand or an application by the plaintiff in its motion for relief more extensive than merely preserving and maintaining the precise status quo as exemplified or confined in the then extant distributorship agreement.

It was the Court's intention, as appears from the opinion, to restrain the defendant from imposing any unlawful restraint on the plaintiff. The Court's opinion expressly referred to geographical restrictions which the Court regarded as violative of Section 1 of the Sherman Act.

On the facts which have been presented to me this morning, the Court would rule that no legitimate reason has been presented to the Court for justifying the defendant's refusal to deliver merchandise to the plaintiff in California, that apparently being the only state which is in controversy, at the moment at least, though the Court may very well anticipate that a similar problem may arise as to other of the thirteen states that represent the excluded area under the distributorship agreement.

I don't know whether counsel desire to formalize their respective statements of fact in the form of affidavits or whether it is the desire of counsel to have me issue a ruling on the basis of the presentation by counsel as stated on the record this morning. I would assume that the facts presented to me represent facts that can readily be converted into an affidavit, if necessary, but I, for one, do not see any real necessity for the submission of affidavits unless counsel desire to make a formal record for appellate purposes. As far as I am concerned, in the exercise of my discretion, I do not need affidavits if this procedural technique is agreeable to counsel.

How do you feel about that, Mr. Shaw?

Mr. Shaw: I think that the reason why I asked your Honor to hear this is because it poses a question not only in California but other places.

Your Honor has indicated to me what your Honor had in mind in the opinion. I would simply just like to say to your Honor that I don't think the complaint said what you said it said. I don't think your Honor in your opinion—at least I was misled because you always qualified it as a distributor. Now, as a distributor who is a distributor of this area, I don't think there is anything illegal under the Sherman Act in specifying an area for any distributor. Now, the question in the case, as I have always understood it, was the limitation and restriction as to what they could do with it after they got it.

The Court: Mr. Shaw, may I suggest that we cover the procedural point first before we get into further argument? I would be glad to hear you at length.

Mr. Shaw: I don't think we need affidavits.

The Court: Mr. Litvack, do you want affidavits?

Mr. Litvack: No, your Honor, not at all.

Mr. Shaw: Are you proposing to appeal from this order?

Mr. Shaw: I am considering it, your Honor. I don't know.

The Court: If you take an appeal and assuming that an appeal lies, as to which I express no opinion, that being outside my jurisdiction and function, you are satisfied to have this supplemental ruling which I am making this morning be based upon statements of counsel with the same force and effect as if the facts set forth by counsel to the Court were under oath?

Mr. Shaw: Yes.

The Court: Is that agreeable?

Mr. Litvack: That is completely agreeable to us.

The Court: We will treat that as a stipulation on the record in order to shortcircuit the necessity of presenting affidavits.

Now, coming on the substantative merits—

Mr. Shaw: May I sit down?

The Court: Yes, Mr. Shaw.

It is my distinct recollection that in my opinion I explicitly and expressly discussed the problem of geographical restrictions. I explicitly used language saying that the defendant is restrained from imposing any unlawful restraint or interference with the plaintiff or any unlawful requirements or terms or conditions, to use the language of the complaint. The decretal provision contained in my opinion is almost a verbatim adaptation of the language contained in Mr. Litvack's proposed order and of the language contained in Section VII of the complaint, which uses the same language.

In view of all of the circumstances and considering the record as a whole, the Court hereby rules that the injunction order restrains the defendant from refusing to deliver merchandise to the plaintiff in California, that being the only state specifically in issue before the Court this morning. By a parity of reasoning, this being dictum, I would apply the same ruling with regard to any other state should the same situation without any material differences of fact be presented to the Court.

Now, what I have just said with respect to areas other than California is simply anticipatory, but I trust it may serve as a guideline for counsel and the parties. The Court's statement from the bench constitutes a ruling and an order.

So ordered.

Mr. Litvak: Your Honor, may I raise one other matter? It won't take much time.

This is a matter of procedure. We have encountered—I am afraid we may encounter more—preliminary problems involving discovery which essentially arises out of the interpretation of your Honor's order. I wonder if it would be possible as a matter of saving the Court's time and energy, if we could, when and if we do need any rulings, which

I am afraid we may, apply directly to the Court through your Honor's clerk rather than going through the motion part clerk and filing motions down there, which may be referred to your Honor anyway?

The Court: You are familiar with the Rule 2 procedure

Mr. Litvack: Yes, your Honor.

The Court: ——whereby a Judge may be assigned to a case for all purposes. I am not a Rule 2 Judge in this case nor am I seeking to be designated as the Rule 2 Judge. I have other matters that occupy my time. So that I do not want to use this occasion for assuming powers and responsibilities in this case which should more probably be those of a Rule 2 Judge.

The only reason I heard this application this morning was that Mr. Shaw's letter of February 17, 1969, indicated that this dealt with a matter of interpreting my opinion and order and only that, and I felt that as a matter of courtesy to counsel and in the interest of saving time I would not raise any question as to the scope of my jurisdiction under Rule 2. But since it looks like this may blossom out into a full-fledged piece of litigation with all of the usual ancillary and interlocutory and pretrial proceedings it may well be that counsel, if so advised, may desire to consider the feasibility of having a Rule 2 Judge assigned, but nothing I have said constitutes an expression of any views or any intimation of any views as to my being designated by the Chief Judge for that purpose. In other words, I am not answering your questions, Mr. Litvack.

Mr. Litvack: Thank you, your Honor.

Mr. Shaw: Thank you very much.

PRE-TRIAL RULING NO. 5

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U.S. DISTRICT COURT
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UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

SCM CORPORATION	:	
V.	:	CIVIL NO. 15,807
XEROX CORPORATION	:	

PRE-TRIAL RULING NO. 5

In the continuing flood of motions that threatens to drown this litigation, plaintiff has filed two motions concerning the timing of discovery on the severed issues of patent validity and infringement. See Memorandum of Decision on Plaintiff's Motion for Severance of Issues, January 3, 1974. While margin endorsement of the motions would not be inappropriate, a disturbing aspect of plaintiff's position warrants some discussion, understanding of which requires brief recapitulation.

SCM filed its original complaint on July 31, 1973. Paragraph 176 alleged that Xerox's Middleton-Reynolds '006 patent "is invalid and unenforceable, and was procured by fraud. . . ." The same allegation was repeated in paragraph 65 of SCM's amended complaint, filed November 2, 1973, with

elaboration as to the grounds of invalidity. Xerox's answer included a counterclaim that charged SCM with infringement of the '006 patent. On January 3, 1974, this Court ruled, in response to a motion by SCM, that proceedings with respect to the severed issues of validity and infringement of patents including the '006 patent would not be stayed "for reasons previously set forth with respect to identical contentions in the Litton-Xerox litigation." Civil Nos. 15,136, 15,137, 15,705. Prior to that ruling, the parties had submitted to the Court a stipulation providing that SCM's time within which to object, answer or otherwise plead to Xerox's Second Request for Documents, and Interrogatories 1 - 32, which were served December 3, 1973, would be extended until thirty days after this Court decided SCM's motion for a stay of proceedings with respect to the patent validity and infringement issues. That stipulation was endorsed "So ordered" and filed on January 11, 1974. With the filing of this Court's denial of SCM's motion for a stay on January 3, 1974, the time period for the thirty-day extension commenced. SCM has now moved (a) for a rehearing of this Court's decision denying a stay of proceedings with respect to the severed patent validity and infringement issues, the rehearing request being limited to the '006 patent, and (b) for an additional thirty days, until March 3, 1974, to object, answer or otherwise plead to

Xerox's Second Request for Documents, and Xerox's Interrogatories, which all relate to the severed issues.

The unusual aspect of these motions is SCM's claim that it is required to "engage additional patent counsel to help shoulder the burden of litigating the severed patent issues. . . ." (Kaye affidavit of January 22, 1974, ¶ 4). This claim is amplified in Attorney Kaye's letter of February 6, 1974, to this Court and counsel stating the following:

> "Since I was the only trial attorney among SCM's outside counsel or its inside counsel with prior experience in patent infringement litigation, it was incumbent after Your Honor's decision of January 3rd, and in view of my over-all responsibility with respect to trial proceedings in this action, that SCM engage additional patent counsel besides myself to work on the severed but not stayed patent matters."

It is thus apparent that SCM filed in this Court a lawsuit alleging not only patent invalidity but fraudulent patent procurement without having engaged sufficient counsel to prepare such a case for trial. Apparently the SCM legal forces include sufficient personnel to assess a patent's validity and to inspect a file wrapper sufficiently to advise a client to bring suit. Whether counsel with time and expertise to handle such tasks, requiring detailed knowledge of patent law and of the risks of litigation, are unable to respond to discovery requests is a matter for some speculation.

But by SCM's own claim, it filed the suit without retaining counsel it considered necessary to a proper preparation of the patent issues for trial.

Perhaps this was done in the expectation that the patent issues would be severed and stayed. SCM did indicate in paragraph 181 of its original complaint that it would seek to accomplish that result. Nevertheless, this Court does not lightly countenance a party's filing of a lawsuit without retaining whatever counsel are needed for the preparation of the litigation, simply in the hope that the Court will agree with the plaintiff's proposed timetable. Whether a courtroom specialist may be later retained for the actual trial is another matter. The district courts, already overburdened with a constantly increasing caseload, are open for the conduct of litigation, not gamesmanship. With this in mind, the merits of the two motions can be considered.

In urging reconsideration of its request that proceedings with respect to the '006 patent be stayed, SCM contends that its claim is in fact not identical with the similar contentions made in the Xerox-Litton litigation. In that litigation, Xerox, a plaintiff initiating its own suit for infringement of its patents, sought severance and a stay of proceedings with respect to <u>defendant's</u> antitrust counterclaims. Here, SCM, a plaintiff initiating its own antitrust

suit which includes its own claim for a declaration of patent invalidity, seeks a stay as to issues that it has brought into Court for determination. As SCM points out, the claims for a stay in the two cases are not precisely identical; in fact, the SCM claim is somewhat less meritorious. In Xerox-Litton, plaintiff sought to stay discovery of issues that defendant injected into the lawsuit. Here, plaintiff wants to stay discovery on an issue on which it brought suit. SCM was not compelled to sue Xerox on a claim of patent invalidity. This is not a protective action filed to toll a statute of limitations while the plaintiff litigates elsewhere under a risk of dismissal for lack of jurisdiction. Nor is patent invalidity a claim required to be joined with SCM's antitrust and patent misuse claims. If SCM was not prepared to litigate its claim of patent invalidity, it should not have invoked the jurisdiction of this Court to adjudicate that claim.

SCM is quite correct in urging that its request for a stay, unlike Xerox's request in Xerox-Litton, implicates the Blonder-Tongue doctrine.[1/] As SCM points out, it will be able to assert collateral estoppel in the event the '006 patent is declared invalid in litigation currently pending in the

1/ Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313 (1972).

Southern District of New York. But, that principle was known to SCM's present counsel before SCM filed this suit. If SCM expects a favorable outcome in the New York litigation, it need not have started litigation here. If it does litigate here, it should expect to ready the case for trial.

Once discovery in this case has been completed, there may be merit in delaying trial of the patent validity issues if the same issues are about to be decided in the New York litigation. That was the situation that confronted the district court in Filtrol Corporation v. Kelleher, 467 F.2d 242 (9th Cir. 1972). With the issue of patent validity sub judice in another district, the court proceeded to trial only on infringement issues, deferring trial of issues of validity of the same patent. Neither party in Filtrol was permitted to stay preparation of the validity issues for trial.

SCM's request for an additional thirty days to respond to Xerox's discovery on the patent issues is not unreasonable, especially in view of the extensions of time it has accorded Xerox to respond to SCM's discovery on the anti-trust issues. Frankly, the Court is not impressed with SCM's contention that it needs the extra thirty days because it retained patent counsel only after finding out that its expectation of a stay of all proceedings with respect to the

patent issues was disappointed. However, having miscalculated, SCM will not be denied the additional thirty days, or what is now left of that period, because of its candor in disclosing its unexpected need for additional counsel. Hopefully, the additional thirty days will be used to prepare a more constructive response than SCM's total objection to all of Xerox's First Request to Produce Documents.

Accordingly, plaintiff's motion for rehearing of its request to stay proceedings with respect to issues concerning the validity and enforceability of the Middleton-Reynolds '006 patent is denied, and plaintiff's motion for an extension of time until March 3, 1974, to object, answer or otherwise plead to defendant's Interrogatories and Second Request for Documents is granted.

Dated at Hartford, Connecticut, this 22 day of February, 1974.

Jon O. Newman
United States District Judge

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PROCEEDINGS OF MARCH 6, 1974

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF CONNECTICUT

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SCM CORPORATION,

Plaintiff,

vs. Civil Action No. 15,807

XEROX CORPORATION,

Defendant.

- - - - - - - - - - - - - - - - - - - -x

New Haven, Connecticut
March 6, 1974

B e f o r e:

Hon. JON O. NEWMAN, U.S.D.J.

Hearing on Local Issues Concerning Plaintiff's Motion for a Preliminary Injunction

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MR. SPINDLER: I would like to introduce to the Court Mr. Michael Malina of Kaye, Scholer, Fierman, Hays and Handler, who will be sitting at counsel table with Mr. Robinson.

MR. ROBINSON: May it please the Court, the issue before your Honor this morning is the legal sufficiency of SCM's request for a preliminary injunction.

As the Court put it in its order of January 3rd, Xerox is challenging SCM's motion on the ground that SCM has failed to state a claim upon which relief can be granted insofar as it's seeking specific preliminary injunctive relief here.

It is Xerox's position that SCM is not entitled to a preliminary injunction as a matter of law, and that it would be an utter waste of time for the Court and parties to go through a hearing, the outcome of which is a foregone conclusion.

We recognize, your Honor, that the procedure which you have permitted us to follow here is somewhat unorthodox. Ordinarily, the plaintiff makes a motion for a preliminary injunction and the defendant contests it, both on the facts and the law. Here, on the other hand, we are proceeding at this stage on the legal front alone. That is because, we submit, legal infirmities of SCM's motion are self-apparent.

To put it another way, the unusual nature of this

proceeding is the product of what I can only describe as a most unusual motion for preliminary relief.

In the typical case, when a plaintiff seeks the extraordinary remedy of a preliminary injunction -- a remedy which subjects the defendant to judicial restraint prior to a plenary adjudication of any wrongdoing -- there is some urgency about the matter. The plaintiff hasn't sat around for a decade only to awaken suddenly to the realization that he is being irreparably injured by the defendant's conduct. In addition, the plaintiff knows specifically what kind of relief he wants, and he comes into Court and tells the Judge and his adversary specifically what it is that he thinks he needs by way of equitable intervention, to avoid grievous injury during the pendency of the litgation. He does not improvise as he goes along, piling afterthought upon afterthought in a desperate effort to hit upon some form of relief to which he may be entitled. And there is something special about his plight to distinguish him from the ordinary litigant.

SCM is clearly atypical. It is not in dire need; it is not in any need at all as far as interim relief is concerned. I don't mean to suggest that SCM doesn't want a preliminary injunction; but it wants it for an extraneous reason -- not for the relief that it may obtain pendente lite, but for the advisory opinion that it hopes to receive from your

Honor with respect to the likelihood of its success on the merits ultimately. I think your Honor got some flavor of that when the parties first discussed this question of preliminary relief in your chambers. At that time, Mr. Kayo, in a moment of total candor, indicated that the SCM management desired such preliminary determination in order to decide whether to make certain additional capital commitments in the copier field. That, I submit, is a plain misuse of the office of a preliminary injunction.

While I am on the subject of the likelihood of success -- a question not presently before your Honor because of the unusual procedural posture of this matter -- I would like to pay to rest any notion that Xerox stands before you as a presumed violator of the antitrust laws. Since Xerox has attacked the legal sufficiency of SCM's motion, SCM argues that the Court must assume that "the ultimate adjudication . . . will be in SCM's favor" --

THE COURT: I suspect that's just a semantic dispute on that point. At least, I think that's all that is involved. I don't think they are asking me to say for all purposes Xerox should be assumedto be in violation, but they are asking me to say that for purposes of considering your legal objection to their motion I should assume it, because what you're saying is that even if they are right on the facts of

violation, they don't get a preliminary injunction. So they want me to assume it for the limited purpose of deciding the legal sufficiency of their claim to a preliminary injunction, at least, that's what I understand the assumption to be.

MR. ROBINSON: Let me make a distinction, your Honor. There is a difference between assuming, for purposes of the motion, that the defendant has violated the antitrust laws.

THE COURT: It's not even for purposes of the motion, it's for purposes of getting over the legal obstacle to the motion that you are now tendering. It's a rather limited assumption.

MR. ROBINSON: Even that limited assumption is incorrect, and I would like to explain the distinction. It is incorrect to assume that for this limited purpose of whether the relief is legally deficient, the Court should take the view that Xerox has violated the antitrust laws. The demurrer, or the motion to dismiss, if you will, entitles your Honor to make an assumption, but it is this assumption, that there is a reasonable prospect that if a preliminary injunction hearing were granted, the Court would say there is enough before me to say that there is a likelihood of success on the merits, not that Xerox has violated the antitrust laws. There is a big distinction between the determination that a court of equity makes on a preliminary injunction hearing with respect to the issue of violation and a

finding or a presumption that the defendant has violated the antitrust laws.

That may sound like a semantic difference to you, but I think that it is a very real difference, and what we are saying to you here is, assume that if you held your preliminary injunction hearing, when you came to the first element you would find, arguendo, that there is a reasonable prospect or substantial likelihood that SCM would establish upon a trial that Xerox has violated the antitrust laws.

We say there is no purpose in going through that, that trauma, frankly, because of these other legal infirmities in the preliminary injunctive relief motion that --

THE COURT: You're distinguishing between the preliminary injunction standard of probability of success, rather than proven success at themerits?

MR. ROBINSON: Correct.

THE COURT: Well, I'm not sure they are not entitled to ask me to assume a little more than that, because while in a traditional preliminary injunction matter probability of success would be enough to the extent that the merits were involved, that would, of course, be the standard, but that doesn't mean that on a preliminary injunction the plaintiff wouldn't, in fact, show not merely a probability of success, but perhaps the certainty of success, and there certainly

been hearings where a court didn't stop at the probability level, but went ahead and made a finding.

Now, I am not suggesting that would bind Xerox, but when they in meeting your legal objection want to say to me that it just is not so that no set of facts would warrant relief, I don't think they have to stop at the threshold of probability of success. They are entitled to come in and say: we can make such an overwhelming showing of success and we are prepared to, that you shouldn't deny us that chance at the outset, and I think that's what they want me to assume they can do and not settle for the probability of success standard.

MR. ROBINSON: Your Honor, in a complex monopolization suit, I don't see how they could conceivably make such a showing on a motion for a preliminary injunction -- if it were truly a motion for a preliminary injunction, if it were distinguished from a full hearing after extensive discovery on both sides where we, as well as SCM, had been in a position to put our best foot forward, I think that we are within the framework here of a traditional motion for a preliminary injunction and not a telescoped hearing, if you will, which converts the preliminary injunction proceeding into, in effect, a trial on the merits, and it would only be if you had the latter type of proceeding that I think that you would be in a position to rule to a "legal certainty" that there was a violation of the law.

THE COURT: You see, then the point is a little different. Then you are saying I shouldn't assume what they say they can prove because it's just inconceivable that they could do it, but that's a little different from saying I ought not to assume it.

MR. ROBINSON: It does seem to me that where we are warranted in taking the criteria that the courts have laid down for preliminary injunctions and saying there are several criteria, and as to the first, we will pass because they can't come within the second, third, whatever it is, and no court phrases the standard for preliminary injunctive relief on the first leg in terms of legal certainty.

THE COURT: I quite agree with that view of it, but that's -- when you say no court does that, that's a court that has got a record in front of it as to whether it ought to grant a preliminary injunction. You are saying I ought not to assemble that record, and in response to that they say: well, then, if you are not going to -- if you are going to decide whether to assemble the record, at least assume that we have made the record we say we can make before you deny us the chance to do it.

MR. ROBINSON: It seems to me that SCM would be saying to your Honor that the record that we can make here is that there is a reasonable likelihood of success on the merits. I don't

believe that they are going to buy the further burden of saying they can prove to a legal certainty that we have violated the law on a motion for a preliminary injunction, but in any event, let me just tell your Honor that you can rest assured that if you were to hold a hearing on SCM's motion, you would be confronted with a plethora of evidence by Xerox to negate the claim of illegality, so I think if we are going to hold a hearing, that point is going to be completely academic.

What we are exploring here this morning is whether or not we have to hold a hearing or whether it's going to be an essay in futility. We say it's going to be an essay in futility. There can't be any legitimate doubt that the standard applicable on an application for preliminary relief is the one that the Second Circuit expressed in the Checker Motors case, which is cited Page 6 of our opening brief, "The purpose of a preliminary injunction is to maintain the status quo pending a final determination of the merits. It will not be granted except upon a clear showing of probable success and possible irreparable injury."

Addressing myself first, therefore, to the status quo requirement, the cases are legion that a preliminary injunction is designed to do one of two things -- either to preserve the relationship between the parties as of the commencement of suit or to restore conditions to their last

uncontested status. And the corollary of that proposition is that the remedy may not be utilized to confer upon a party a new status which it has never previously enjoyed.

Now, all of the preliminary relief sought by SCM in its original and amended complaints -- including its requests for patent licenses and access to Xerox's future plans -- would be barred by this principle.

While SCM quarrels with our view of the law, it comes up virtually empty-handed when it tries to bolster its argument with legal authority, and cites several cases, but all except one are inapposite, as our reply brief demonstrates, pages 3 to 7, and I won't go into a discussion case by case this morning. Courts of equity simply do not issue preliminary injunctions in order to change the status quo. The one case which gives SCM any comfort -- the decision of the Philadelphia District Court in the Hockey litigation -- stands, I submit, in splendid isolation, disregards the law in its own circuit and should not be followed by your Honor.

It is quite apparent that SCM has misgivings about the strength of its legal position on the status quo point.

THE COURT: Before you leave the Hockey case, is there anything ignoble about what happened there, was the injunction appealed?

MR. ROBINSON: No, the case was settled.

THE COURT: It was settled at that point?

MR. [illegible]: What happened was that Judge Higgenbotham issued an injunctive bond which the Hockey League was unable to satisfy, and then after a year the case was settled, just last month.

MR. KAYE: My only standing in that case -- my understanding is that the World Hockey League did put up the bond, this decision was about tow years ago, and that the case was settled just within the last three weeks, some weeks before the case was to go to trial. WE can provide accurate --

THE COURT: Apparently, there was no appeal of the preliminary injunction and there was no final adjudication of the merits?

MR. ROBINSON: That's correct.

If SCM didn't have misgivings about this status quo obstacle, we wouldn't be treated to an ever-expanding list of post-amended complaint prayers for additional preliminary relief, such as injunctions against acquisitions, cross-licensing agreements, and the ultimate -- an injunction prohibiting any acts likely to violate the antitrust laws. This is nothing more nor less than a transparent effort by SCM to avoid the impact of the status quo rule. Since these eleventh

hour additional prayers are not in the complaint which is before your Honor, you would be warranted in disregarding them. However, it doesn't make any difference whether you treat th as properly before you or not. And that's because, wholly apart from the status quo principle, SCM's motion is fatally defective for another reason which cuts across the entire spectrum of the relief which it requests -- SCM's manifest inability to show immediate and irreparable injury. I would like to turn to that depositive issue.

THE COURT: I have some inquiry on the status quo point, so if you plan to come back to it, I don't want to interrupt your argument.

MR. ROBINSON: I don't plan to come back to it.

THE COURT: What I'm wondering about the claims made on the status quo argument is this: you accept the proposition that the traditional rule is both a preserving of the status quo and a restoring of the last uncontested position?

MR. ROBINSON: Right.

THE COURT: I'm not sure Judge Higgenbottom would think he did anything aberrational, given those two ways of looking at the status quo. He said he was preserving the status quo, I don't think he thought he was being facetious about it. He didn't tell the one league to furnish a player to the other. In that sense, he didn't say to this new league, you now get

a player by mandate of the court that you didn't get before. What he said to the defendant is: you can't go to court over your contract.

MR. ROBINSON: You can't enforce your --

THE COURT: You can't enforce your contract.

MR. ROTINSON: You can't keep your players.

THE COURT: In a sense, I suppose it could be argued that a restoring of the last uncontested position, because what the plaintiff is saying is that: we want to go back to where we were before the dispute arose precipitated by their developing a contract in restraint of trade.

MR. ROBINSON: Before they were -- before the dispute arose, and I think that SCM and Xerox agree on this, was that they were under contract to the National Hockey teams and they were obliged to play, if at all, for the National Hockey League.

THE COURT: That may have been what the contract said, but the player then could jump, as many had, and risk a lawsuit. What the trial judge said is: you can now jump and you may risk the lawsuit, but the lawsuit is not going to happen pending this lawsuit. It may happend at the end, and that's why he required two and a half million dollar bond in case they won the lawsuit. He didn't abrogate the contract. He just said: you can play for them pending the lawsuit, and I think he thought he was restoring them to the last uncontested position.

Now, what I would wonder here is whether or not there are aspects of that claim here. It may be that --

MR. ROBINSON: We don't even reach the status quo point when it comes to, for example, this post-amended complaint prayer for an injunction against, let's say, acquisitions of anything.

THE COURT: I understand that different items of their relief pose rather different issues when tested by any view of a status quo standard. Certainly, when they say: turn over your report plans, it's very hard to fit that into the traditional status quo argument. Now, when they say: don't enforce your contract concerning employment, post-Xerox employment by your employees --

MR. ROBINSON: That's moot.

THE COURT: I understand your argument is that it's moot because you're not going to enforce it, but as an illustration that's a lot closer to what Judge Higgenbottom did. The one that I suppose is the most contentious in this litigation is what to do about the patents.

MR. ROBINSON: Your Honor, just to use the approach that you just used, if it's a change in the status quo to turn over our future plans to SCM, it is a change in the status quo to turn over patents to SCM, which is a license.

THE COURT: The license might well be viewed that way,

but apparently you take the view that a requirement that you not enforce your patents pending this lawsuit is on a somewhat different footing because you, indeed, disclaim that you will do that.

MR. ROBINSON: We say that to prevent us, to enjoin us from enforcing our patents pending the lawsuit is simply the prohibitory obverse of granting a license pendente lite because it comes down to the same thing. A license pendente lite means that the licensee is free of litigation during the period of the license.

THE COURT: Is it really just the observe? After all, if I were to get to the issue of granting -- of ordering pendente lite a license, I would be faced with all kinds of questions about the terms of that license. Naturally, they would like it royalty free, but they concede that's their first position, but not their last position, and I would be faced with a whole lot of questions as to the terms of the license.

Now, the obverse of saying thatyou cannot enforce your patent during the life of the suit doesn't present any of those questions, it simply says that when this suit is over, within our lifetime, hopefully, if you win, if Xerox wins, you will then have the right to collect every dollar of damage for patentinfringement you would have had if this

suit had never been brought, and if you lose and the losing has something to do with patents, either on the issue of the validity or misuse or other issues, then you're not going to collect those damages.

It seems to me, that while I understand your point, conceptually there is an opposite side of the coin aspect to nonenforcement of the patent and grant of a license, but mechanically, it seems to me it's quite different, certainly, I don't have to develop any terms of a license if I tell you that you can enforce your patent. It simply just puts all that on the shelf for the life of this lawsuit, and leaves the quantification of damages to the end.

MR. ROBINSON: I think we are concerned, though, not with the mechanics or form, but substance, and that's why to me in terms of legal substance, there is no difference between the license pendent lite and a temporary restraint against enforcing the patent. I think that, as far as Xerox is concerned, we wind up in the same position; as far as SCM is concerned, they wind up in the same position, and I don't believe that the mechanics of drafting the order from your Honor's point of view is what would determine whether or not there is a change or not a change in the status quo.

THE COURT: The notion of telling a defendant that they can't enforce some right during the course of a lawsuit is

not an alien notion.

Now, you are quite right that has the effect of conveying some rights, but it wouldn't be the first time, I don't think, that a court preliminarily had told a defendant they couldn't enforce a document or an agreement that they understood was an enforceable agreement at the outset of the litigation.

MR. ROBINSON: Look at it this way, if the license is granted, the request for the other relief, the injunctive relief against enforcement evaporates because the license dispenses with the necessity for that, so it just seems to me you're back where you started from. What you're doing -- one way or theother is granting them a permission. That's what it comes down to, anything else is a matter of form.

THE COURT: If one is so in your view, just the obverse of the other, you apparently don't think you're giving them a license when you agree that you won't bring a patent suit during the course of this lawsuit?

MR. ROBINSON: We do.

THE COURT: You do think you are?

MR. ROBINSON: We do.

THE COURT: Why are you so willing to do it if you tell me that the prospect of a license would be so extraodinary?

MR. ROBINSON: Your Honor, the fact of the matter is

that we would have no objection to granting a license pendente lite on the machines that SCM wants to market during the pendency of this case for precisely the reason that your Honor articulated -- it's the fair equivalent of our undertaking not to sue for preliminary relief.

THE COURT: That comes as something of a surprise to me. I don't know if it's a surprise to the plaintiff.

MR. ROBINSON: I don't think it happens to be responsive to what the plaintiff has asked for. They have asked for the kitchen sink.

THE COURT: I know, but that doesn't mean they wouldn't be interested in the principal aspect of the plumbing.

MR. ROBINSON: I really think, your Honor, that the license pendente lite here is the fair equivalent of our undertaking not to seek preliminary relief.

THE COURT: You would be willing to grant --

MR. ROBINSON: On themachine, yes. I'm not talking about a license under all of Xerox's patents, I'm talking about a license under such of Xerox's patents as would be necessary to enable SCM to market whatever copier it wants to market or to make whatever copier it wants to make during the pendency of this lawsuit.

THE COURT: Whatkind of a license do you have in mind?

MR. ROBINSON: A nonexclusive license to make, use and vend during the period of lawsuit with respect to any of the machines that they may want to manufacture and market.

THE COURT: At what compensation?

MR. ROBINSON: Reasonable royalty. I don't think that should be a tremendous stumbling block. The range is fairly narrow. Presumably that ways would be determined if your Honor were to order the issue of such a license. I can't believe that your Honor would order royalty free license pendente lite. I don't think SCM is serious in asking for that. They are asking for -- they are really recognizing that there a reasonable royalty would be fixed and ultimately there might bea change in that if they were to succeed on the merits. I think even if you were to succeed on merits, the likelihood of getting a royalty free license is highly remote.

THE COURT: Well, that may be something that the parties want to explore. I don't suggest it's a complete answer to the plaintiff's claim, but it seems to be a principal aspect of their claim for temporary relief.

MR. ROBINSON: Frankly, I thought that it was the guts of their claim for temporary relief when we were in your Honor's chambers, and we were talking about the relief asked for in a specific document. A complaint before the Court; then, of

course, since that we have had the ever-expanding demands, but I would agree with you that given the mootness of the employee covenant restriction and the fact that the patents will not stand in the way of any manufacture or marketing during the pendency of the lawsuit, should and would have wrapped up matters if they stood in the posture that they were originally presented to the Court under the original complaint that was filed. It was in the amended complaint that we got the request for future plans for the first time.

Turning to the issue of immediate and irreparable injury, whcih we regard as dispositive, the Bible here is Section 16 of the Clayton Act. That is the only basis for a private party's obtaining equitable relief of any kind under the antitrust laws. The statutory language is unequivocal -- a preliminary injunction in a private antitrust action may be issued only upon "a showing that the danger of irreparable loss or damage is immediate."

Apparently SCM doesn't like that statute. It much prefers Section 15 of the Clayton Act. The only trouble is that Section 15 applies in equity actions brought by the United States Government and not by private parties. There is no doubt about the fact that the Department of Justice does not have to prove irreparable injury in order to secure preliminary injunctive relief in an antitrust case. That's because Section

15; unlike Section 16, does not impose any such requirement. SCM, of course, would like to equate itself with the Department of Justice. Now, it can call itself a "private attorney general" from today until Doomsday, but it still must satisfy Section 16, and no court has ever held otherwise.

SCM's citation of theopinion of the Second Circuit in the Gulf and Western case takes it nowhere, since the Court of Appeals itself bottomed its decision "above all else" on a finding of irreparable injury to A&P, the private suitor. We are perfectly content to rely upon Judge Timbers' formulation of the applicable rule in Gulf and Western: "We repeatedly have held that the two-fold requirement for a preliminary injunction is a demonstration of probability of success on the merits and a showing that irreparable harm will result if such relief is denied."

What SCM would like to do is to read the requirement of irreparable injury out of the statute and thereby obliterate the difference between the standards for preliminary and permanent equitable relief. But there is all the difference in the world between what a private party must show in order to secure, before a trial on the merits, the extraordinary remedy of a preliminary injunction, and what he must show in order to obtain equitable relief after he has established a violation of law at trial. After trial, it suffices to prove -- in the

language of the statute -- that the plaintiff is "threatened with loss or damage." Before trial, it is necessary to show that the threatened loss or damage is "immediate" and "irreparable." This is a distinction that Congress built into the statute itself. All you have to do is read it. And no court has ever read it to dispense with the necessity of showing irreparable injury on a motion for a preliminary injunction by a private party. That, your Honor, is absolutely bedrock law.

In an effort to avoid the irreparable injury barrier, SCM advances a variant of its "private attorney general" argument. Even if SCM does not stand in the same shoes as the Department of Justice -- the argument runs -- SCM can still get a preliminary injunction if it makes out a sufficiently strong case as to its likelihood of success on the merits.

The De Laurentis case, from which SCM would deduce such a rule, holds no such thing. Wholly apart from the fact that De Laurentis was not an antitrust case, and therefore the plaintiff did not have to satisfy the explicit mandate of Section 16 of the Clayton Act, the fact of the matter is that irreparable damage was proved to the hilt in that case and the Second Circuit specifically so found.

If De Laurentis had held that a strong showing of likely success on the merits obviated the need for establishing irreparable injury, the case would be dead wrong

and flatly inconsistent with what the United States Supreme Court stated only a few weeks ago. That case was Sampson against Murray, decided on February 19th and it's reported at 42 U.S. Law Week at Page 4221. For the convenience of the Court I would like to hand up a copy. I have already given a copy to Mr. Kaye. I would like to direct your Honor's attention to footnote 63 at page 4230, where Justice Rehnquist makes clear that these two issues, likelihood of success on merits and irreparable injury, must be treated separately. What happened was that the defendant failed to produce a key witness under its control. The testimony of that key witness was relevant to the issue of likelihood of success. This failure was held to justify the resolution of that issue in the plaintiff's favor. Let me now quote the salient portion of the passage: It's the very last sentence:

"While the District Court may well have been entitled to resolve that issue -- likelihood of success -- against the Government at that stage of the proceeding, this conclusion in no way dispenses with the necessity for a conclusion that irreparable injury will occur, since that is a separate issue that must be proved to the satisfaction of the Court by the person seeking equitable relief."

When all is said and done, SCM does not cite a single case (antitrust or otherwise) in which a preliminary

injunction was issued at the behest of a private party absent a showing of irreparable injury. And it is on that point, your Honor, that SCM must lose as a matter of law.

What is "irreparable injury"? One thing we know for sure. It is not present when the plaintiff has an adequate remedy at law by way of money damages. And that's what SCM clearly has here.

SCM does not contest the equitable doctrine that a preliminary injunction will not lie if there is an adequate remedy at law. I therefore don't have to labor that point. What SCM says is that a plaintiff's damages in an antitrust case are uncertain and difficult to prove and, therefore, cannot constitute an adequate remedy at law.

The argument is demonstrably unsound. It proves too much. If SCM is correct, the only time that money damages would be an adequate remedy at law would be where the plaintiff seeks a liquidated sum. And that would rule out every antitrust case. Every private antitrust plaintiff would automatically satisfy the irreparable injury standard of SEction 16 simply because of the nature of the damages which are recoverable under the antitrust laws.

THE COURT: What about the converse of that argument, if the availability of money damages, despite some uncertainty that attends their computation is enough to defeat their claim,

then, aren't you in a position of saying that the court of equity can never grant equitable relief for a Section 2 violation?

MR. ROBINSON: For Section 2 violation?

THE COURT: Yes.

MR. ROBINSON: I say that a court of equity can grant preliminary injunctive relief where a plaintiff comes in and shows that he is going to suffer some very unusual kind of injury which will not be compensable by monetary damages.

Now, if, for example -- we have the De Laurentis case itself, your Honor. It didn't happen to be an antitrust case, but I think it indicates the kind of injury which is irreparable. Second Circuit referred to it basically in terms of damage to reputation, credibility of the plaintiff before the public, and what happened there was that the plaintiff had devised a process, a particular process for motion picture exhibition and had a contract with the defendant to use that process in connection with the promotion of, I think the picture was called The Bible. There was a dispute as to the meaning of the contract and the plaintiff made a motion to compel the exhibition of that picture in accordance with the process that the plaintiff had devised.

The Court of Appeals held that preliminary relief was justified, that insofar as the loss of royalties was [illegible]

on that particular picture, that was money damages and compensable as such, but that because of the tremendous fanfare that had accompanied this launching of a new process, that if the picture were not shown in that -- by that process, the plaintiff, in effect, could kiss his business goodbye forever and a day, because the public would lose confidence in the process, as such, and would never get off the ground and never see the light of day. And for that reason, under those extraordinary circumstances, the court said it's appropriate here to grant a preliminary injunction.

But that's a far cry from saying that somebody who has been around as long as SCM has been allegedly being excluded from this business and being in the coated paper business will be irreparably injured simply because it doesn't get interim relief during the pendency of a lawsuit, and while we are on this question of Section 2, since the question that your Honor put to me was Section 2, rather than all antitrust litigation in general, I might say that it's singularly illuminating to me, at any rate, that the United States Government, which doesn't have to prove irreparable injury, has, to my knowledge, never obtain and even sought a preliminary injunction in the monopolization case, and you might well ask yourself the question: why doesn't it do that, all it has to do is prove a reasonable likelihood of success on merits, and I think the answer

is because these monopolization cases are so complex that the government recognizes that it's wasting its time because if it comes into court, it's going to be met with a host of countervailing evidence and documents, and the judge is not going to be in a position to make that favorable ruling, so I think that is a very revealing thing and --

THE COURT: But that's a tactical objection to the technique, not a question of legal insufficiency.

MR. ROBINSON: That's right, they know they can't get it and, therefore, they don't waste their time making the motion, but I do think that there are special --

THE COURT: At the end of the case, of course, injunctions are common and they are not rejected because there is the availability of a treble damage measure of damages.

MR. ROBINSON: Absolutely not, your Honor, that's perfectly true, the big difference is that the defendant has had his day in court, he has been proven to be a wrongdoer after a full trial on merits. At that point, money damages are recoverable and equitable relief is available under Section 16 to prevent further threatened loss or damage, but there is -- to come back to what I said before -- a very sharp distinction between threatened loss or damage which is really a recurrence of the kind of injury that caused money damages to be paid in the first place, and the kind of injury which is irreparable

and immediate.

Those are very strong words, irreparable and immediate, and you just simply cannot eradicate them from the statute without doing violence to the intent of Congress.

THE COURT: Do you understand those words to refer to the fate of the plaintiff as an entity, or can they refer to the fate of its venture into the particular line that it seems to -- in which it seeks to compete?

MR. ROBINSON: I would say that you have to take it in terms of the line in which it's competing. I wouldn't be here saying that if SCM can survive because it's in the typewriter business, it can be obliterated in the copier field, but, you know, we are not talking about obliteration here, we are talking about a company who has progressively gotten more heavily involved in the copier field, and coming back to Mr. Kaye's candid remark, wants to get a judicial opinion, it's an odds maker, in effect, is what he wants to make of it, to let it know should it go ahead and make some more investments in this field, what are the chances, what do you think of our likelihood of succeeding on the merits here? We are not talking about any company that's being driven to the wall. We are talking about a company that has almost a billion dollars in sales and a half a billion --

THE COURT: That's the entity --

MR. ROBINSON: Yes, but -- that is the entity, but you have to look at the entity also in terms of the assets that it has to put behind a project and the seriousness with which it's committed itself, and there is no -- nobody has come into court here and said to your Honor, I have not seen any statement that SCM is going to give up the ghost, if it doesn't get preliminary injunctive relief. I have not seen anything like that.

THE COURT: What they say they want, perhaps as you indicated, not that they will be out of the blank paper copier field, but they will be irreparably injured in their capacity to successfully enter the field. If that's so, would that be the type of irreparable and immediate damage that would be cognizable?

MR. ROBINSON: Your Honor, what they are saying, it seems to me, that their growth may be stunted if they are not given preliminary relief pendente lite. To me, that's a euphemism for saying that we will not make as much money as we would otherwise make if we had preliminary injunctive relief. I have difficulty even seeing that in terms of the specific six that they asked for, why it's going to stunt their growth, but the point that I'm -- and I'm going to come back to the specific prayers for relief at the end of my argument, but the point that I'm making now is that damages are adequate here,

they are compensable, and that is a dispositive issue in this case, and I think if I can develop the argument a little more fully, I hope to be able to persuade your Honor on that point, because when you get right down to it, the crushing answer to SCM's argument is provided by the very cases which it cites to support the proposition that antitrust damages are uncertain in amount. The Supreme Court has repeatedly held that the private treble damage suitor, once the fact of injury is established, need not prove his damages with certainty; he need only "make a just and reasonable estimate of the damages based on relevant data." That's the language of the Supreme Court in the Bigelow case, it'sthe classic formulation.

Now, it is beyond me how SCM can argue that money damages are inadequate because it cannot prove them with certainty in order to recover -- and, bear in mind, your Honor, recover not only single damages, but treble damages, to boot. That, by any reckoning, is more than adequate.

I hope you will forgive me if I appear to be laboring the obvious, but this goes to the very heart of the legal deficiency of SCM's prayer for preliminary injunctive relief. The fact that SCM may not be able to prove the amount of its damages with precision is no skin off SCM's nose. The uncertainty comes out of the defendant's hide. Let

me quote once again from Chief Justice Stone in the Bigelow case:

"The most elementary conceptions of justice and public policy require that the wrongdoer shall bear the risk of the uncertainty which his own wrongdoing has created."

In a nutshell, the Supreme Court has given the private party in a treble damage action special dispensation which eases his burden of proof on the issue of damages and thereby facilitates his recovery.

Now, I have not heard SCM come into court and say that it cannot comply with the Bigelow doctrine. SCM is not saying that it will be unable to provide the jury with a just and reasonable estimate of its damages based on relevant data. As a matter of fact, Mr. Kaye told you precisely the contrary three months ago in this very courtroom when he outlined, and I quote, "two ways that SCM can come in to prove damages." That was on December 7.

Of course, it goes without saying that if SCM can prove its damages resulting from Xerox's alleged monopolization up to the time of the filing of the complaint, it can, at the time of trial, prove any additional damages that it may have sustained during the pendency of the action.

Now, this brings me to a fundamental misconception that permeates SCM's entire approach to this matter of preliminary injunctive relief. Positing that it has been

excluded from the plain paper copier business by reason of Xerox's alleged monopolization, SCM argues that every day that Xerox is permitted to continue its supposedly illegal conduct produces further injury to SCM. This argument is entirely beside the point. If SCM's claim is well founded, it will be compensated in money damages for any continuing injury during the pendency of the litigation. What this comes down to is SCM's failure to grasp the distinction between antitrust injury, which is compensable in damages, and what I tried to indicate to your Honor is a special type of immediate and irreparable injury that is necessary in order to obtain a preliminary injunction. The kind of continuing injury claimed by SCM is not irreparable within the meaning of the case law. Otherwise, every private party suing for treble damages, where there is a claim of continuing antitrust violation, would ipso facto be entitled to a preliminary injunction upon a showing of likelihood of success.

Apropos of what is meant by "irreparable injury," I am sure that your Honor will be interested in the recent discussion of that subject by the United States Supreme Court in the SAmpson case which I just handed up to you.

I call your Honor's attention particularly to the passage at page 4230 where the Court quotes with approval from a decision of the Court of Appeals of the District of

Columbia, namely:

"The key word in this consideration is irreparable. Here injuries, however substantial, in terms of money, time and energy necessarily expended in the absence of a stay, are not enough. The possibility that adequate compensatory or other corrective relief will be available at a later date, in the ordinary course of litigation, weighs heavily against a claim of irreparable harm."

THE COURT: Is it fair to say that your point in this regard is really that lessened capacity to compete can never be irreparable injury for purposes of that antitrust injunction pendente lite?

MR. ROBINSON: Lessened capacity to compete, which is another way of saying that the plaintiff's sales will suffer, and, therefore, its profits will diminish, is not the kind of irreparable injury that was intended by Section 16, yes, sir, your Honor.

THE COURT: And I assume your point is that that is so even if the lessened capacity during the life of the lawsuit will also, upon some proper showing of proof, reduce sales and profits beyond the life of the lawsuit?

MR. ROBINSON: That's correct, because that can be compensated.

I have another opinion hot off the press, your

Honor, which I would like to hand up with your permission. This one, unlike Sampson, is an antitrust decision. It was decided just a few weeks ago by Judge Palmieri in the South... District of New York and is entitled Columbia Pictures against American Broadcasting Companies. It is reported in 1974 CCH Trade Cases in Paragraph 74,912.

The issue of irreparable injury which confronted Judge Palmieri in the Columbia Pictures case is remarkably similar to the matter before your Honor. The case involved a claim by a number of motion picture producers that the entry of two television networks into feature film production threatened to foreclose the motion picture companies from the prime time television market for their films. In other words, the plaintiffs in Columbia Pictures, like SCM here, were charging that the defendant's antitrust violation threatened to exclude their products from the relevant market. The film producers sought a preliminary injunction prohibiting one of the networks from televising four films which it had produced itself.

Judge Palmieri denied the motion on a number of grounds. Oneof his principal reasons was that the plaintiffs had an adequate remedy at law in damages so that the irreparable injury required by Section 16 of the Clayton Act was not present. The relevant paragraph of Judge Palmieri's

opinion fits this case like the proverbial glove:

"Plaintiff's argument that legal remedies will be unavailing is equally unpersuasive. While it is true" --

THE COURT: AT what page is that?

MR. ROBINSON: It's Page 96,097.

"While it is true that it appears at this point that plaintiffs' damages, if any, would ultimately require computation on the basis of their foreclosure from the market, plaintiffs make no attempt to demonstrate why it will not be possible to do so, if and when the problem arises. Plaintiffs merely assert, ipso dixit, thatit will not be possible to do so. But neither prospective difficulty in computing damages nor the fact that the computations will be based on the effects of foreclosed competition necessarily preclude such computations . . . . Moreover, plaintiffs will fall within the penumbra of the elementary principle that 'the wrondoer shall bear the risk of the uncertainty [of damages] which his wrong has created.' . . . .

[Judge Palmieri then states the Bigelow rule, and concludes:]

"Since it appears that the damages alleged in this suit are susceptible to monetary computation, and plaintiffs having failed to demonstrate that this is not the

case, we conclude that plaintiffs will have an adequate remedy at law and are not in danger of immediate irreparable injury."

I said that the discussion in Columbia Pictures "fits this case like the proverbial glove"; I should have said that the case before your Honor follows a fortiori. That is because here, unlike the case before Judge Palmieri, SCM does not even assert, by ipse dixit or otherwise, that it will not be possible for it to prove its damages. On the contrary, as I have already indicated, SCM says that it has at least two theories to bring itself within the Bigelow doctrine.

I should like to turn now, your Honor, to another reason why irreparable injury cannot be shown here -- the fact that SCM took ten years before seeking a preliminary injunction. There is no dispute about the fact that there has been a ten-year delay. SCM's complaint specifically alleges that Xerox has monopolized since at least 1963, that SCM was excluded from the manufacturer of plain paper copiers "no later than 1963" and in 1964 SCM received a patent license from Xerox expressly limited to coated paper products. As Judge Irving Kaufman stated in the Veterans of Foreign Wars case, which is cited at page 28 of our opening brief:

"It is difficult to show how irreparable injury would result to the plaintiff if an injunction pendente lite is not granted, particularly when it has waited almost 12

years before bringing the instant suit."

What this means is that courts of equity weren't born yesterday. They are realistic enough to know that if irreparable injury is present, it doesn't take years for the realization to dawn upon the supposedly injured party. Judge Palmieri also had something pertinent to say on this subject in the Columbia Pictures case. This is what he said:

"It is well settled that undue delay in seeking preliminary injunctive relief is a significant factor in weighing the relative equities."

This appears 96,099.

"A motion for a preliminary injunction is necessarily predicated on an urgent need for speedy relief in order to preserve and protect the rights of the moving party. But the dilatory behavior of the plaintiffs in seeking such relief must be deemed to demonstrate a lack of urgency under the circumstances as well as casting considerable doubt on the necessity for precipitate and drastic relief. While this may be insufficient to bar permanent injunctive relief after trial, it may equitably foreclose the plaintiffs from complaining of delays which ordinarily precede a full trial of all the issues."

What I am saying to your Honor is hardly novel. It is a time-honored equitable principle. SCM misconceives the point when it argues that "laches is not available as a de[illegible]

as a matter of law in cases like this". The issue before the Court today is not whether this suit is barred by laches. The issue is whether SCM's extraordinary "dilatory behavior" in seeking a preliminary injunction -- to quote Judge Palmieri -- "may equitably foreclose [SCM] from complaining of delays which ordinarily precede a full trial of all the issues." Your Honor doesn't need to hold an evidentiary hearing to decide that a delay of ten years negates "an urgent need for speedy relief." To quote again from Judge Kaufman:

"This is not a case where a plaintiff has suddenly discovered the commission of the acts complained of but rather it is acknowledged that the defendants have been committing these acts to the knowledge of the plaintiff for many years. The plaintiff must use prompt diligence in applying for a temporary injunction."

I could rest my argument at this point and sit down -- without addressing myself to the specific items of interlocutory relief which appear on SCM's constantly expanding laundry list. But it is highly instructive to examine that list because it underscores the fact that none of the relief requested by SCM is urgently needed pendente lite. Put another way, SCM will not be irreparably injured if it is not granted.

I would like to discuss SCM's requests in

chronological order. There are four segments to that chronology: the prayers in the original complaint; the additional prayer in the amended complaint; the additional prayers in SCM's opening brief on this motion; and the additional prayers in SCM's reply brief.

SCM's original complaint set forth the principal item of preliminary injunctive relief that it seeks -- a mandatory patent license covering all of Xerox's patents and its prohibitory obverse, an injunction restraining Xerox from commencing or threatening to commence patent infringement suits against SCM, its suppliers and its customers.

The complaint also contained a prayer for preliminary injunctive relief prohibiting Xerox from enforcing post-employment covenants not to compete entered into with certain of its employees. We can make short shrift of that one, because, as I have indicated, those covenants were abandoned, they were abandoned in 1970 and they are no longer in effect. The point, therefore, is moot. Needless to say, SCM cannot be injured at all, much less irreparably, by non-existent covenants.

THE COURT: You say they were abandoned?

MR. ROBINSON: They were abandoned in 1970. That's correct.

THE COURT: What event memorialized that incident?

MR. ROBINSON: The covenantees were informed they

were no longer binding. By Xerox's management.

THE COURT: Was there a formal rescission of the agreement?

MR. ROBINSON: There was a notification to the parties under the covenant that the covenant was not binding and the new agreements that have gone out with employees do not contain any such covenant, so that anybody under an old agreement would have been notified that particular covenant was no longer in effect. It's a unilateral abandonment of the covenant, and the new agreements do not contain the clause. It's not an issue.

THE COURT: They are not satisifed --

MR. ROBINSON: They don't want to take our word for it.

THE COURT: I don't know thatit's a matter of questioning your good faith, but simply that, however they wish to put it, at least from their briefs, I get the impression that they think there hasn't been such an abandonment such as to ease their minds on the subject.

MR. ROBINSON: Let me say on that score, your Honor, I cannot conceive of them having any basis for any such feeling of ill ease. There is none.

THE COURT: Is there anything of record here that indicates that Xerox has disclaimed the enforcement of those clauses?

MR. ROBINSON: The only thing, your Honor, is the representation that I made when I was in chambers on the very first occasion on this, which was repeated in our briefs and which is being repeated to your Honor, and if it's a matter of making a satisfactory showing to SCM, I am sure we are prepared to do that because there is no issue about it.

Turning to the matter of patent licensing, our point is very simple. We have touched upon this before. We have represented to SCM and to this Court that Xerox will not seek a preliminary injunction to enjoin the infringement of any patent during pendency of the suit, and as far as end user customers are concerned, we further represented that we have never brought a patent infringement suit against a machine end user and we will not do so during the pendency of this litigation.

What this means is that SCM is free to manufacture and market plain paper copiers pendente lite as it would just as free as if your Honor were to order the temporary patent license to SCM. And, therefore, the mandatory licensing injunction is totally unnecessary and I have gone further and indicated that we would be prepared to issue such a license, so there really shouldn't be any controversy on that score, unless SCM is going to say: we want to have a license on your entire portfolio whether or not we are making or marketing machines which embody any of your patents which would seem to

an extraordinary position to take.

THE COURT: Let's explore that a moment. Supposing I were to pattern the suggestion of a license of those patents necessary for their development and production of a plain paper copier, suppose further that the parties are not in agreement on what is divisible royalty, would it avoid that controversy if by agreement there were some sort of a consent order barring the seeking of the preliminary injunctive relief to enforce those patents?

MR. ROBINSON: I would -- subject to consultation with my client, I would see no objection to an agreement which, in effect, would have the Court seal of approval on it. That would not be in the context of a preliminary injunction motion, it would be in the context of an agreement by the parties.

We maintain thatwhether or not SCM receives such a license pendente lite, its position at the termination of this litigation would be precisely the same. If it wins the case on the merits, Xerox's patents would be rendered unenforceable by reason of patent misuse, SCM would not have needed any patent license for the past, and it will not need them for the future. On the other hand, if SCM loses at trial, it will oweXerox the same damages either for infringement (if it did not receive a temporary license from the Court) or under the inevitable injunction bond that SCM would have to put up as the price for a

preliminary injunction. Necessarily, it follows that license or no license, SCM is free to compete during the pendency of antitrust litigation and come out in the same place at the end.

When SCM talks about a "Sword of Damocles" hanging over its head -- referring to the possibility that it may be sued for patent infringement -- its rhetoric should not obscure the fact that the sword has no edge pendente lite. For SCM will be free to continue infringing until the antitrust case is decided on its merits. Certainly the mere fact that SCM, if sued for infringement by Xerox, would incur some expense in defending itself does not rise to the level of irreparable injury.

We don't have to rely solely on deductive reasoning here, your Honor. The prospect that SCM might be sued for infringement by Xerox has not kept SCM out of the plain paper copier field. The record is clear on that score. Not only is SCM actively developing a plain paper copier in conjunction with Japanese companies, which it plans to market in this country in 1975, but just a few months ago SCM announced an agreement with an American company, Van Dyk Research Corporation, to market Van Dyk's plain paper officer copiers in this country. It is perfectly apparent that SCM is going full steam ahead in its effort to develop and market plain paper copiers and that it

doesn't need any preliminary injunction to enable it to do so.

I come now to the second stage of the chronology, or, if you prefer, SCM's first afterthought.

When SCM filed its amended complaint it remedied the prolixity of its original complaint insofar as allegations of evidentiary facts were concerned, but it augmented its prayer for preliminary injunctive relief by asking for access to all of Xerox's short- and long-range manufacturing and marketing plans. We have yet to be told how non-disclosure of this highly confidential competitive material by Xerox could conceivably inflict immediate irreparable injury on SCM. Moreover, the request is so fundamentally anticompetitive that it would be improper to include such relief even in a permanent injunction after a trial on the merits. Finally, to grant SCM access to these secrets pendente lite would be irremediable, for once the genie is out of the bottle, it can never be replaced. Secrets once disclosed are no longer secrets.

So much for the prayers in SCM's complaints. Three brand-new requests appeared for the first time in SCM's opening brief on this motion. Having already asked for a license under all of Xerox's patents, SCM took a giant step forward and now asks the Court to enter an order obliging Xerox to disclose all of its unpatented technology and know-how to SCM. In other

words, SCM wants access to all of Xerox's proprietary information during the pendency of this lawsuit. Curiously enough, SCM does not even make a categorical statement that such technology is needed. The most says -- and I am quoting from Page 66 of its opening brief -- is that the information "may be equally as vital to SCM as access to Xerox's patented technology. . ." That's a fine how-do-you-do, your Honor. You would think that a plaintiff seeking a preliminary injunction would at least come before the Court and state in no uncertain terms that it does in fact need the requested relief.

Again, I need not emphasize that once this unpatented secret know-how is divulged, it is gone forever and is therefore -- all else aside -- a wholly inappropriate item for preliminary injunctive relief.

Finally, itis demonstrably plain that lack of access to Xerox's technology during the pendency of this case cannot irreparably injure SCM. The proof of the pudding is provided by SCM's supplier, Van Dyk. Van Dyk -- "a very small company", according to Mr. Kaye -- he made that statement on December 7 in this court -- has developed a copying and duplicating machine which SCM, the marketer of the machine, says is "the fastest plain paper office copier on the market (at 4,000 copies per hour compared to 3,600 copies per hour for the Xerox '3600')." If Van Dyk was able to accomplish this feat

without any -- without access to any of Xerox's unpatented know-how and technology, there is certainly no reason why SCM, a far larger company with much greater resources, cannot do likewise. And if it cannot, it's because of its own shortcomings -- hardly a justification for getting a free ride on the developments of a competitor.

In its opening brief, SCM suggests for the first time that it might be appropriate to grant some preliminary relief with respect to Rank-Xerox, an English company 51% of the stock of which is owned by Xerox and 49% by the Rank Organization. SCM states: "The Court has thepower to anesthetize Xerox's control and to minimize to the extent possible any future antitrust consequences flowing from that control," including orders affecting Xerox's voting control of Rank-Xerox and preventing Xerox from getting the exclusive benefits of any Rank-Xerox developments.

Your Honor, we are not here to engage in an abstract discussion of your -- of the scope of your judicial power. We are here to determine whether SCM has the right to invoke thatpower. It does not have that right unless it is threatened with immediate and irreparable injury if it does not secure what it is seeking. There is not a word in SCM's brief to suggest that SCM will be irreparably injured during the pendency of this lawsuit if the Court does not alter the relationship

between Xerox and Rank-Xerox. We are talking about the pendency of this case, not what may ultimately happen after a final adjudication.

As for SCM's casual observation that "the Court possesses the power preliminarily to restrain Xerox against any future acquisition of the stock or assets of any other company, as well as the future acquisition of any patented or unpatented technology", my answer is the same. The issue is not one of power; the issue is whether SCM is entitled to an exercise of that power. We are not engaged in a theoretical enterprise, but in an effort to determine how SCM can conceivably be irreparably injured without a preliminary injunction that it's seeking.

I come now to the fourth installment -- the additional preliminary relief requested in SCM's reply brief. Let me tick off the items quickly; they do not merit extended further discussion:

1. Prohibition of further enlargement of professional and technical staff in the field of xerography: that is, a prohibition against Xerox doing any -- making any further enlargement.

2. Prohibition of acquisitions of exclusive control of patented or unpatented technology developed by Battelle since commencement of the action.

3. Prohibition of acquisition of relevant technology from anyone.

4. Prohibition of new cross-licensing agreements which give Xerox exclusive use of relevant technology.

5. Prohibition of any acts likely to violate the antitrust laws or perpetuate further unlawful effects of violations.

I think that the sheer multiplicity of SCM's demands, your Honor, along with their successive timing, demonstrates perhaps better than anything else that this is not an appropriate case for a preliminary injunction.

To come back to what I said at the outset of my remarks, there must be a sense of urgency when a private party asks a court of equity to intervene to grant interim relief before a plenary adjudication of wrongdoing. The plaintiff should be in a position if he is really being irreparably injured, to tell the Court precisely where it hurts and what should be done about it. He should not dream up an interminable array of possible remedies and say, in effect, to the Court: "You're the doctor; you prescribe the medicine."

Whatever may be your Honor's role in fashioning effective permanent relief should SCM prevail after a full trial on the merits, your function is dramatically differ[illegible]

at this juncture. That function is to preserve the status quo and prevent immediate and irreparable injury so that the parties may litigate the merits.

Let me close by saying that if the statutory requirement of immediate and irreparable injury can be satisfied by SCM in this case, it can be satisfied by any private antitrust suitor -- which is another way of saying that the statute is meaningless. As long as Section 16 remains on the books, SCM cannot secure a preliminary injunction. That is apparent as a matter of law, and a hearing on the question would be a colossal waste of time and effort.

THE COURT: I would like to raise one matter with you, which is what you yourself raise at the outset, the unusual nature of seeking a determination of sufficiency of a preliminary injunction claim at the outset. I would be interested to know whether you have any authority for the proposition that where a complaint is sufficient to call for trial, there has been no suggestion here that the complaint does not state a claim, that a motion for preliminary injunction can be denied for its legal insufficiency.

MR. ROBINSON: I stated at the outset, your Honor, that this was an unorthodox procedure, and I have no authority, but I have never heard of a motion for a preliminary injunction being made in the manner in which it has been made

here, having regard for the lapse of time that has occurred and the constantly expanding laundry list after demonstration has been made, at least we say the demonstration has been made, the plaintiff really didn't need the preliminary relief during the progress of the litigation, and what we are trying to avoid here is engaging in a frolic and a detour when we feel very strongly that there are insurmountable legal obstacles to the granting of the motion here.

THE COURT: In effect, your position is somewhat extraordinary response to what you view as quite extraordinary motion.

MR. ROBINSON: More extraordinary motion.

THE COURT: Have you concluded?

MR. ROBINSON: Yes.

THE COURT: We will take a short recess.

(Recess taken.)

MR. KAYE: Your Honor, I would like first -- I propose to be very brief. Just to bring your Honor up to date on one authority which we cited in our brief, the MCI case, in that case the defendant, AT&T, sought a stay pending appeal which the Court of Appeals for theThird Circuit denied in a brief order, and as the Wall Street Journal reported insofar as that brief order was concerned, AT&T was going ahead to provide the interconnection to the plaintiff that the District Court's order required, interconnections which theretofore had never occurred.

There are additional Court of Appeals for the Second Circuit cases that I would like to call the Court's attention to, a case called Charlies Girls versus Revlon, a pro curiam decision at 483 F. 2nd 953, which states the rule with respect to the granting of preliminary injunction, either a combination of probable success and the possibility of irreparable injury or that serious questions are raised in the balance of hardships tip sharply in its favor.

The combination of probable success and the possibility of irreparable injury is mentioned in the Gulf and Western case, mentioned in the De Laurentis, and also mentioned again by Judge Timbers in the Pride case, 482 F. 2nd at 264, and I think that that need not be developed any further.

With respect to the two authorities Mr.

Robinson handed up --

THE COURT: Before you leave that point, is it your view that the sort of alternate way of considering the test, in other words, not only probability of success plus irreparable injury, but the possible and balance of hardship tipping in favor of the plaintiff, that that is available in an antitrust contest?

MR. KAYE: Yes, your Honor. I think it's a question of weighing. Where the balance of hardships tips decidedly in favor of the plaintiff, that is that he has made a very strong showing on irreparable injury, then starting with Judge Frank, and since that time the notion has been, then all that you need show or are required to show in -- when that balance tips over so decidedly, is a serious question which requires further investigation.

Judge Timbers, using some emphasis in the Pride case, which I didn't give you the citation fully, said the standard that has evolved is that the moving party "assumes the burden of demonstrating either" -- and he underscores "either" -- "a combination of probable success and the possibility of irreparable injury or" -- and he underscores "or" -- "that it has raised serious questions going to the merits and that the balance of hardship tips sharply in its favor."

So that I think that the court has very clearly

in this and in many other cases adopted a rule which depends on the particular weights involved, as probability of success increases in weight, the amount or the quantum of showing as to irreparable injury may be less, and conversely, if the plaintiff is not able to show probable success, but merely a serious question and he shows a very, very strong irreparable injury, then that may be sufficient, but again, all of those depends upon the making of a record.

What is the precise rule or the standard to be applied by the court is to be determined after the record has been developed on both questions, on the question of probability of ultimate success and on the question of irreparable injury. It is not a question, we submit, that can be decided now. On either one of those points, because I think the one thing that cuts right across what Xerox counsel has said to you this morning is -- everything he said is factual. The question of will -- is there an immediate irreparable injury? Well, I'm not going to stand here and testify today -- I can say that SCM intends to show, yes, that there is an immediate irreparable injury in being denied access to the technology and to people that there is a strong prospect, I am saying this is what SCM intends to prove and the witnesses will state, there is a strongprospect that without the preliminary injunctive relief that is sought, without stringent injunctive relief, there is a

very substantial prospect, number one, that SCM will not be able to survive in its very incipient efforts to engage in plain paper officer copier and even if it can survive, it s ability to compete will be substantially lessened absent that preliminary injunctive relief.

Those are factual matters, and we submit, as you know from our briefs, that, therefore, this question cannot be determined as a matter of law.

SCM's showing, both on irreparable injury and on the probability of success, will rise or fall on the evidence that it adduces at the hearing and in the Court's consideration of that evidence and the evidence that Xerox puts in opposition.

I respectfully believe that our showing requires no more -- starting from the assumption which your Honor outlined at the beginning of the argument -- which we think is entirely accurate statement and with great brevity of our position as to teh assumptions at this particular junction on Xerox's motion. Those assumptions are to be made for no other purpose than that.

THE COURT: One thing I am wondering is whether perhaps there is something you need to do in between the allegation of irreparable injury, which is where you are at now, and the full development of a record of witnesses, which is what you contemplate, I am wondering whether you need to in some fashion

particularize your claim of irreparable injury, because it's very easy for anybody to say there is going to be irreparable injury, and I am not sure that just saying that precipitates a full dress hearing.

MR. KAYE: Your Honor, we intend to put on evidence in support of the complaint --

THE COURT: I know, but before you get to evidence --

MR. KAYE: To make a point, which is, that the need for access to technology and people in order to survive and be in this business is urgent, that is, from Xerox, because over the past ten years, among other things, SCM has undertaken at least 27 separate projects, technological, in order to try to develop itself without infringing Xerox's patents.

The technology to get into plain paper office copying and even as --

THE COURT: Inthat aspect, it seems to me there is some basis to deal with that that's been indicated both in their briefs and in their argument.

MR. KAYE: Your Honor, I think --

THE COURT: That makes it seem unlikely that you need an order respecting patents in order to bring out your product during the lawsuit --

MR. KAYE: As far as what Mr. Robinson said today, I'm not clear whether Xerox is making an "unequivocal

representation" that they will not bring any suit, infringement suit, against SCM, or whether at this podium Xerox is making an offer to settle the question of the preliminary injunction motion.

If it's the latter, I respectfully think that that is a matter that ought to be discussed out of court and not in court, so I really think that it's something that Xerox ought to tell us whether they are, as they did in their brief, making any representation or whether it is an offer of settlement.

In their brief and today, many, many things are left unsettled. Are they talking about just United States, or are they talking about abroad?

Now, SCM is attempting to market and planning to market abroad. Will SCM's efforts with an American made machine in France and England face with a Rank-Xerox, controlled by Xerox, brought about with respect to two other companies, including seizure of documents and equipment in France on the date that the lawsuit started, so are we --

THE COURT: Have you explored that with them?

MR. KAYE: We have not. There has been no overture and I --

THE COURT: There has been quite an overture. They filed a brief and said: we are not going to seek any temporary relief with respect to infringement during the life of this

lawsuit. That's quite an overture.

MR. KAYE: We responded to that in our reply brief saying there are many unanswered questions by that offer -- not that offer -- that representation. I shouldn't say --

THE COURT: Isn't the place to answer those questions with parties? It would be a shame to take several months to try a preliminary injunction hearing just because you didn't ask them does their offer include prior patents.

MR. KAYE: Your Honor, it seems to me that at this point you are asking a question, if I am to respond in full, which will require a disclosure to you of certain events, I am perfectly prepared to do it if Mr. Robinson is prepared, also, because we have had previous experience with respect to communicating to Xerox, and we have had experiences as to the lack of response thereto, and my own feelingis that we are getting away from the question here, which is whether or not as a matter of law, thepreliminary injunction should be denied at this juncture. That is the objection.

THE COURT: I understand that's the issue, but if one of the principal things you want to do is be able to do is to bring out a product without being hit with an infringement action, and particularly a preliminary injunction in that infringement action, during the life of this lawsuit, then it seems to me that ought to be explored, because if that's available to you, but

you just don't want to pick it up, then that certainly is a very strong equity in whether I want to entertain preliminary injunction motion.

MR. KAYE: I would suggest that it is not a basis for a determination by your Honor that we are not entitled to have a preliminary injunction motion because Xerox has made some kind of suggestion of a settlement short of the relief that we request. I do want to address myself to your point.

THE COURT: I don't understand that it's a settlement; they are not saying: we will do this if they drop their other claims. The brief doesn't say that. Mr. Robinson didn't say that in argument. Maybe that's an unsaid qualification, but so far I have not heard it. It seems to me it's a rather unequivocal position.

MR. KAYE: Your Honor, first of all, as to what they say they won't do, which is a preliminary injunction, we didn't say that that is what they shouldn't do. We said, as far as the relief that we seek on the preliminary injunction, it is against threatening or maintaining any action.

Now, if Xerox brings an action against SCM based on its Van Dyk machine, and there is that threat immediately on the horizon; the fact that Xerox now says they won't bring a preliminary injunction motion does not mean that SCM will not have to incur very, very substantial expense in defending the lawsuit,

an expense which itself might put SCM out of its business --

THE COURT: The cost of the lawsuit?

MR. KAYE: Yes, your Honor.

THE COURT: Are you serious?

MR. KAYE: I'm absolutely serious, your Honor.

Let me make the point --

THE COURT: You can prosecute this lawsuit, but you will be wiped out in any patent infringement suit?

MR. KAYE: Your Honor, let me make two points. SCM is buying that machine from Van Dyk. We have papers from Xerox which point out that Van Dyk is a tiny, little company that has no resources to manufacture or distribute the products itself. If Van Dyk is sued along with SCM, even if Xerox does not seek a preliminary injunction, there is a very strong--

THE COURT: You are not going to market their product without some undertaking to defend infringement actions, are you?

MR. KAYE: The question is that Van Dyk may not be able to, and it is highly unlikely that Van Dyk could afford the kind of cost to defend that suit.

THE COURT: ARen't you going to undertake --

MR. KAYE: There is no undertaking to defend that suit, as far as I know, by SCM.

Let me address myself to your question, which is:

will the very bringing of the lawsuit possibly put both either SCM or Van dyk out of business, and I say: yes. the IBM-Xerox lawsuit has been reported to have cost each side millions of dollars in patent legal expenses.

Now, IBM has greater resources, and so does Xerox. Mr. Robinson has referred to SCM's position, and you have addressed yourself to the line. Xerox has this information, at least it's reflected in their own papers in their estimate of SCM, SCM had last year approximately $80 million of total sales in coated paper office copying.

It had no sales in plain paper office copying. It has had, and has been trying to, as financially able as it can, to try to get into technology to find it thoughout the world. I had losses last year of several millions of dollars in coated paper, it has in previous years -- Xerox is fully aware of the fact that SCM is losing money in its coated paper business.

The Supreme Court has referred time and time again to the anticompetitive effect of only the cost of getting involved in these patent lawsuits.

THE COURT: Are you suggesting the cost of the patent suit is going to be more than what you are going to have to pay them if you lose and have to pay them infringement payments during the life of the lawsuit?

MR. KANE: Insofar as a lawsuit on plain paper office

copying is concerned, since there is the technology -- is not available without the threat of that, and since there is other than the Van Dyk machine, I can't say that there is, I'm not quite sure I understand your Honor's question.

THE COURT: Your point is that if they bring a lawsuit and seek preliminary relief, and you have to defend that lawsuit, you might be wiped out?

MR. KAYE: Yes, your Honor.

THE COURT: At the same time, you're in here seeking a preliminary injunction, which if you get it, you will certainly have to put up a bond and assure them that you will pay them every dollar of infringement damage in the event you lose the lawsuit?

MR. KAYE: That's correct.

THE COURT: My question is: how do you believe you can pay those dollars if you can't afford the cost of the litigation?

MR. KAYE: Your Honor, if your Honor were to direct the license, as Mr. Robinson has been talking about, and assume that your Honor followed the pattern of the license back in 1964, which was a coated paper license, and said two and a half percent is a reasonable royalty, now, first of all, SCM, as far as the development of machines to try to begin to get to their 19 models, taking some of the -- attempting to use some of this technology,

it's going to be years before those machines will come out, and, therefore, the period of time of use is going to be less in terms of possible damages or royalties to them, but instead of having to wait ten years to begin to try to do this, we do it now on the assumption, of course, that theCourt finds a reasonable probable success.

So that if it's a license royalty, which would be -- that's why we say that would be the equivalent of a bond, it is a fixed amount. Now, that fixed amount, if you take the Van Dyk copiers -- at the moment, there is a six million dollar commitment. That is, there is total value of the machines -- if there is a license royalty of two percent or three percent of those machines, and even if SCM exercises its option in June to expand that to 40 million dollars, the answer to your question is: yes, the license royalty on those 40 million dollars of Van Dyk machines and the license royalty on any machines that SCM will be able to market, using the technology, in my view, would be substantially less than the enormous sumsof money that would be required to engage in full-fledged patent infringement litigation with Xerox during the pendency of this action.

We have had some experience, SCM maintained a lawsuit against RCA in 1965 and1966 --

THE COURT: Can you afford this litigation?

MR. KAYE: SCM is undertaking to do the best it can to

maintain this litigation.

THE COURT: I'm afraid I'm going to be hit pretty soon with a request for a bond for costs.

MR. KAYE: Xerox finds it amusing. The question is: as far as whether the courts are open to a litigant here, SCM, which seeks to set aside what it claims to be an enormous monopolistic position which was the consequence of its acquisition and strangle-hold over technology and to free SCM from the effects of that and also at the same timeothers. SCM did that with respect to a zinc oxide patent on which it was previously paying tributs to RCA. It was simultaneously paying tributs to Xerox on another zinc oxide patent, and it was able through that litigation, at very substantial expense, to free from thatlicense.

During that period of time, when the SCM suit was brought, SCM was making money in the coated paper business, and just as Xerox can afford to spendgreat sums of money, $132 million for research, or whatever it is, which is profit money, a company which has problems does not have the same flexibility and ability to spend unlimited amounts of money.

Now, as far as this lawsuit is concerned, your Honor has seen us, SCM has committed a substantial effort and has made a substantial commitment to this lawsuit. That doesn't mean that if we are right that those patents have been illegally

acquired and would be if Xerox attempted to enforcethem, it would be an illegal enforcement, but because we are attempting to maintain this lawsuit, we should be entitled to an injunction, that's the very point of this lawsuit. That is, that SCM considers this is the right approach to prevent the exercise of those patents, because those patents on traditional terms may be valid.

THE COURT: Mr. Robinson says he is willing to agree that they won't enforce the patents, as I understood him, needed to enable you to enter theplain paper copier business, he is willing not to enforce those during the life of the lawsuit.

MR. KAYE: I ask this -- perhaps Mr. Robinson can answer this -- is Xerox willing -- is Xerox representing that it will not threaten or maintain any patent infringement action against SCM here or abroad: that is, through Rank-Xerox, with respect to any plain paper office copier that SCM is designing, developing or manufacturing or marketing during the pendency of this action?

I think Mr. Robinson ought to answer that, and then we will know where Xerox stands on that point.

MR. ROBINSON: What I said to your Honor was that we would be prepared to enter into a license agreement with SCM pending this lawsuit, a temporary license, under our patents,

under such of our patents as would be required by SCM to market its -- manufacture and market its plain paper copiers. I didn't focus on the foreign aspect of it. We have no objection in principle to making that applicable to the foreign area, as well.

The only reason that I -- for my hesitation is that we would have to determine whether there is anything -- that in doing that abroad there would be anything inconsistent with the rights of a 49% stockholder in Rank-Xerox, the Rank Organization, but as far as Xerox is concerned, we would undertake to do everything within our power to make that license available pendente lite abroad, as well as domestically.

THE COURT: Is your suggestion limited to the license approach, or does it apply equally to what I understood you to be viewing, as theopposite side of the coin, the willingness to forebear enforcement of the patents during the life of this lawsuit?

MR. ROBINSON: You mean in return for an injunction bond which is the fair equivalent of a --

THE COURT: I assume you would have to have some protection. Part of the agreement would have to be that if you win the suit, they don't get the right not only to use the patent to market their product, but to do so free of infringement damage, you're not asking for that, are you?

MR. KAYE: Subsequent to the lawsuit, if we lose it?

THE COURT: Yes.

MR. KAYE: No, but we are talking about during the pendency of the lawsuit.

THE COURT: Presumably, you are willing to bond them, as you have to do if you won this motion, anyway?

MR. KAYE: That's right, but I think Mr. Robinson and I both agree that insofar as forbearance is concerned, that it would be as feasible to talk about it in terms of a license royalty, which would fix -- it would do precisely the same thing as the bond.

MR. ROBINSON: I think that's right.

MR. KAYE: If it's two and a half percent royalty on sales of machines, using that technology, then we would know, and there would be a certainty as to what the amount is due, and if we were to pay that during the pendency of the lawsuit, and we won the lawsuit, we would be entitled to the money back.

THE COURT: It certainly doesn't matter to me whether the parties agree to a license or forebearance to sue, it strikes me that the license does require them to agree now on what the reasonable compensation is, whereas the forbearance to sue would leave to a later date thatcomputation but --

MR. ROBINSON: I did speak before in terms of a license for a reasonable royalty, and I don't know whether there is any substantive difference between that and the forbearance this

your Honor mentioned, and I would want to consult my client on that.

To me, I think Mr. Kaye has stated it properly, it's a question of whether you fix the amount before or later. That's what it sounds like to me.

MR. KAYE: Your Honor, I would suggest -- because I think -- I don't feel that it's our position to attempt to require Mr. Robinson to state his company's position without further consultation, and then without further negotiation with SCM. WE had one previous experience in your Honor's chambers, representatives of Xerox made a statement in which he said: why don't you tell us what you're interested in, and he wrote us a letter following that conference, to which we responded some three or four weeks later, and which we made it very clear that this was nothing to do with any settlement proposal, but simply taking up their request or suggestion if there was something they wanted to talk about. That letter has never been answered: that is, the SCM response has never been answered, and that is -- that goes back to October.

I made it very clear in the letter which I wrote them, it was not a settlement proposal with respect to the action, and that if anything that Xerox had said was, or that they considered it was a settlement, they should immediately forget about the letter. We have no response whatsoever to it.

My point is this: SCM is certainly willing to discuss with Xerox anytime Xerox is prepared to discuss it with us, and the only times that they have been prepared to discuss it is when they have been in court, and they have addressed something to the Court and nothing follows up afterwards.

We will talk with Xerox as much as Xerox wants to talk with us about this preliminary injunction, but in the interim and now because we look forward, and we are trying to prepare for the May 1 date, we ask the Court to address itself to the motion: that is, to Xerox's motion, which is whether or not SCM's claim is legally insufficient, and I think that we have heard enough from Xerox in terms of their partial concessions to understand that Xerox recognizes the irreparable -- immediate irreparable injury, to SCM, because they have been making those concessions, and in that regard, your Honor would recall the Columbia Steel case by Judge Rodney in the District Court in Delaware is directly at point.

There the defendant filed -- came in and made representations that they wouldn't do this, and they wouldn't do that, and the court said: that may very well be so, that that is the proper relief, but it's for the court to determine after hearing what is theproper preliminary injunctive relief.

We have been talking about patents, and I would like to turn very briefly to what SCM considers to be -- what it

intends to prove, the other vital element. First of all, patents and unpatented technology, and second, people who are capable of using that technology, and let me take one short diversion.

Xerox's counsel says something that -- tries to read somethingout of the words that we say, unpatented technology may be as important and in the amended complaint, a license: that is, access to unpatented technology, is asked for, also.

Now, that was based on, and that request is based on, SCM's counsel's judgment having reviewed since this case has started, papers that Xerox has furnished, including its long-range plans for 1972, which we furnished to your Honor, which SCM's counsel believe show that unpatented technology may very well be as vital in the ability to survive, no less to become a more important viable competitor in this field as the patent technology, although that is something that my client is not -- that is, other than the lawyers, they are not aware of because it's all confidential information.

THE COURT: What am I to do with that if you lose the lawsuit at the end?

MR. KAYE: That's a question of weighing, your Honor, first of all, the point that the secrets are out of the bag, the secret is out of the bag, that is is SCM's hand on a

confidential basis, have not injured Xerox one bit until and unless SCM makes a machine using those secrets. Those secrets have not been -- Xerox hasn't been irreparably injured or injured at all if we have access to all their unpatented and patented technology and are unable to make a machine that can go into the market to compete, and at the end of the lawsuit, if we are talking about difficulties of proof, if at the end of the lawsuit SCM has all the relief it asks for in the preliminary injunction and it's able to market 10,000 machines, then Xerox can make a claim, and all of the 10,000 used their technology, that there is 10,000 machines, that we would have placed inthe market, but not you, and we would havemade X dollars profit per machine and there is a readily computable damage.

Now, insofar as the other side of the coin is concerned, your Honor, in our last argument, talked about the difficulties of proving what we would have been in the market when we are not in the market at all, so that, relatively speaking, proof at the end of the case of Xerox's damage, assuming they win, by virtue of the fact that they have been -- that they have had to give us access to all of their patented and unpatented technology, is much easier than theproblems that face SCM.

The Supreme Court, we point out in the brief, in Zenith against Matsushita, says in this 1969 opinion, that

the record shows the stark difficulties of the plaintiff proving his damage in the immediate past and there was the question of the exclusion from Canada. Here it winds up -- as we point out in the brief -- a weighing process, and this is, what is the injury going to be to the plaintiff and to the public if the injunction does not issue as compared to what will the injury be to the defendant if the injunction does issue, and also taking into account the extent to which it has to be bonded, but insofar as any injury to Xerox is concerned, I think that given this illustration, that that problem will be far more remedial to Xerox than the other way, because as Judge Higgenbottom said, and as it's perfectly plain it applies here, nothing -- as stringent as the injunctive relief as this Court may grant after hearing all of the evidence, Xerox is not going to lose first place in the gallery. All it can do is to help to begin, to give SCM the opportunity, number one, to survive, and to begin to get moving.

I refer to the question of employees, and your Honor, Xerox provided to us -- let me make this point, the pleadings, it's perfectly plain that as to the restrictive agreements, the pleadingsput the question in issue. The pleading is in Paragraph 27 that since 1961, 27D, Xerox acts include requiring its research, scientific and technical personnel, and since 1970 its managerial and professional personnel, to execute

written restrictive agreements preventing or restraining them from engaging in xerographic activity for any other company following termination of employment with Xerox. That pleading is denied by Xerox, except it admits -- Xerox admits that until 1970 it entered into agreements with research, scientific and technical employees whereby they agreed for a period following terminal of their employment with Xerox not to engage in xerographic activity.

So there is a complete denial by Xerox as to anything since 1970, and there is a partial admission as to prior to 1970. So that as a matter -- as a matter of this motion, it's entirely factual there is nothing before the Court by which the Court could say that the matter is moot.

THE COURT: There is clearly one thing that is new, that is their representation that they are not going to enforce these agreements.

MR. KAYE: We have no facts whatsoever that they will not enforce those agreements. We have no evidence whatsoever. In fact, we have the contrary evidence. We asked an interrogatory, which was answered in part on October 15, with respect to the forms of agreements, and the answer -- they furnished to us ten forms of agreements. Each form of agreement on its face -- each form indicates on its face the years during which it was used, and there are ten of them, and I have them all here. The next

sentence is -- the form effective on April 1, 1970 eliminated the provision in question. Referring to the -- referring back to the original complaint.

I have in my hand a document, numbered SA282, furnished by Xerox, which has up in the right-hand corner: Xerox effective mid-1966 to present, and in that document, Paragraph 2, it says: "For the period of two years following termination of such employment for any reason I will not independently engage in xerography directly or indirectly serve in xerography or be employed in xerography by any individual, firm or corporation."

This document was furnished to us by Xerox and it appears on its face, together with what was stated in the answer to interrogatory to indicate that to some extent we don't know, this form is still in use because it says so, it says: effective mid-1966 to present.

We have another one, which apparentlyi s referred to in the third sentence of that response, the form effective on April 1, 1970 eliminated the provision in question. And I have a document SA287, which states: effective April 1, 1970 to date, which does not contain the paragraph to which I just made reference, but contains other provisions which we contend are equally restrictive, since it requires any Xerox employee after the time he terminates his employment not to divulge anything which Xerox considers proprietary to anyone else and

not to divulge trade secrets of Xerox contained in business, formulas, processes, methods, machines, manufactures, compositions, et cetera.

Insofar as this agreement is concerned, it binds an employee not to inform any subsequent employer of anything that Xerox considers proprietary, not even a trade secret, and your Honor has already reviewed many of the documents which Xerox considers proprietary.

Our position is that under that particular paragraph a technical employee for Xerox couldn't possibly work for another company without violating it, and beyond that, this particular document says in Paragraph 2, that if there is any conflict or any question in the conflict that is, for example, with an employee going to work for somebody else, then he agrees that the decision will rest in Xerox's hands in determining any question of conflict of interest.

I made reference to these two agreements --

THE COURT: Is this a live issue in this case in the sense that SCM is prepared to claim that there is a Xerox, at present or former, employee who wants to work for them and they want to hire, but for these agreements whose enforcement you want enjoined?

MR. KAYE: No, not as to a particular one. The claim is that we -- SCM intends to prove through Xerox's recent

documents that they control 95% of the world xerographers, that they have controlled -- they do that by virtue of these agreements and by virtue of a number of other things.

THE COURT: I am talking about the agreements now --

MR. KAYE: By virtue of all this, there is no one around that there has to be an opening up of access to people in the United States, particularly that companies and potential competitors such as SCM can get to --

THE COURT: As to personnel, what does opening up mean, other than nonenforcement of the agreement? You don't want me to order a Xerox technician to go to work for SCM, do you?

MR. KAYE: No, we do not.

THE COURT: What's involved, other than the agreement?

MR. KAYE: To restrain Xerox from enforcing the agreements. It includes the question of restraining them on this second form of agreement from enforcing that --

THE COURT: There is no indication you tried to hire someone and he said, "I would like -- love to come to work for you, but I can't because of this agreement." How can you possibly need an order from me in order to get that fellow?

MR. KAYE: This is the same situation as in the World Hockey case, the National Hockey League had precisely the same kind of agreements with respect to this. If what your Honor is

saying that SCM should go up to Xerox Square and say to a group of Xerox employees, breach these agreement and come to work for us, what we are saying is that Xerox for 13 years has so locked up the personnel market that the opportunity of SCM and others and the opportunity for the public to have other people competa --

THE COURT: Surely, I can't imagine if Judge Higgenbottom had been told during the argument or before it that the National Hockey League was not going to enforce its reserve clause, he would have gone ahead and held a multi-week or month hearing. He would have said: go ahead and sign them up.

MR. KAYE: Has Xerox said they are not going to -- they are not going to enforce eitherof these agreements? We have no proof -- the issue right now is an issue of fact. Your Honor, I can't see it as being anything other than an issue of fact.

Now, there is an additional --

THE COURT: I don't know quite what's in dispute. They say: we are not going to restrict any employee because of those clauses, and you don't have any employee who has been restricted.

MR. KAYE: Does Xerox say they will not enforce any of their proprietary -- any of the provisions, number one, of either of those two agreements that I just read --

THE COURT: Wait a minute. When you ask them to enforce

any of those provisions, of course, some of them have to do with salaries --

MR. KAYE: I'm talking about the question of whether post-employment restriction -- or I'm talking about whether or not any of these trade secrets or proprietary information.

THE COURT: Trade secret is in a quite different area. I thought the essential point here was covenants not to compete.

MR. KAYE: Your Honor, our pleading covers both of these agreements. It covers the first one and it covers the second one, and trade secrets is at the heart of the case because the claim is here, thatXerox not only acquired illegally, it acquired and and enforced patent technology, but likewise from Battelle and all of the other, it acquired illegally unpatented technology which it maintains -- that's an essential item of the claim.

THE COURT: You have made a claim about unpatented technology, and now I understood you're talking about the availability of people.

MR. KAYE: That's right, but those people are useless to a competitor if they are bound not to use or disclose any of the proprietary information of Xerox, nor of any of its trade secrets in xerographic field because they can't possibly operate. Xerox has so much of it and it's so pervasive that there is nothing that employee could do for anybody else without breaching

that -- that agreement, and the question is whether or not Xerox lawfully has those trade secrets and lawfully can enforce such an agreement.

THE COURT: Has any court compelled the disclosure of trade secrets pendente lite?

MR. KAYE: I do not believe that we have cited a case for that, your Honor, but I do not think based on what we have cited that that would not be beyond the Court's power, and for this reason, if theCourt found that those trade secrets were as have happened illegally acquired and being illegally exclusively used and that a powerful showing of illegality had been made, as well as a showing that there would be irreparable injury to the plaintiff by not having them, that is not being able to be in this business without them --

THE COURT: Is that the claim that you're not able to be in this business?

MR. KAYE: The claim is that we -- on the technological and manufacturing level, that without this techonology, we cannot be a viable -- begin to become a viable competitor in this business, the answer is: yes. As well as to the marketing level. The fact that SCM's working with Minolta and has been for years on the last of 28 projects in trying to develop a plain paper copier and having to go to Japan to find people and to find -- try to find some technology, doesn't

mean that SCM can be in this business and can begin to become a competitor. They have got 19 models of machines of alltypes, and SCM has the equipment, thecorporate equipment, to try to be in this business, and in order -- and we would expect to put on evidence to prove that, that in order to begin to try to be a viable competitor, that we need to have this, we need to have two vital elements, technology --

THE COURT: Does viable mean being in the business at all, or does it mean making that level of profit that you consider appropriate, as you use it?

MR. KAYE: In the first instance, being in it at all.

THE COURT: Aren't you about to bring out the Van Dyk model?

MR. KAYE: The Van Dyk model is being marketed. SCM has got so far --

THE COURT: It was developed without access to their trade secrets, presumably.

MR. KAYE: Well, we are not aware -- it's not our company and we are not aware of the basis upon which it was developed. We have documents from Xerox which give Xerox's view of that particular machine, but in any event, so far, SCM has made a commitment for six million dollars. It has an opportunity to exercise an option for forty million dollars, this is the total value of the equipment. It will, if it gets into the market,

attempt to compete against the 3600, which last year -- and this is under seal, so I don't know whether anybody else is present -- produced revenues for Xerox of many hundred of millions of dollars which have value of over a billion dollars.

Now, this is a wee, tiny, little effort, whether it will be successful, whether it will have any profit in it is entirely speculative, it is a commitment by SCM to try to get into the business as soon as it can and to stay in the business and to be a competitor and to -- SCM is here in this court seeking the protection of the laws of the United States to protect competition and its efforts against an alleged violator of Section 2 of the Sherman Act.

That is a praiseworthy cause, that is a cause that is entitled to be heard, we think, and it's a cause that we are entitled, we think, to put our witnesses on the stand so that the Court can hear for itself whether or not there is an immediate need for the kind of relief that we are askingfor and so that the Court can determine whether or not it will be possible.

The same thing happened in MCI before Judge Newcomer. There the plaintiff said that it has to have these interconnections, and they were refused before that by AT&T, Judge Newcomer felt that it needed these interconnections either to survive or even if it could survive so that its growth wouldn't be stunted because the public needed competition, and

here was a private line competitor.

Now, in the Minolta case, which is cited by Xerox, the court found -- directed the defendant to deal with the plaintiff and ship to California, and, if necessary, to 32 other states, and to do business in a way that the plaintiff never was allowed to do business with the defendant before. It was a complete change of state of affairs, and again in every one of these cases, your Honor, without exception, it was based on a record, on facts.

Now, if your Honor holds, or if, as Xerox contends, that the issue concerning employees is moot, I suggest your Honor will have reached -- made a conclusion that summary judgment should be granted. But I am perplexed to know why Xerox and how Xerox, first of all, can make the contention that it's moot in the light of these facts, and second of all, how that decision could be reached.

Now, insofar as the preliminary injunction is concerned, if we do prove that Xerox is a monopolist and has been and is perpetuating its monopoly and has been using these devices to lock up and have a strangle hold on the people involved, certainly, the Court has the power, seeing that, and the number of people involved, in order to free up the possible access of SCM and others to employees, to enjoin Xerox from employing any more people in that -- in the technical field.

Your Honor is absolutely correct, you can't order Doctor Smith or Doctor Jones to come to work for SCM or anybody else, but you can freeze Xerox's position on that front and on any other front where you find a strong possibility of success and where there is going to be private or public injury, which will hold Xerox right where they are so that we don't have the next ten or fifteen years where so many additional developments occur that by the time we get to final relief we are in what we describe in the El Paso situation.

The issues that we are talking about here are of tremendous moment. They are of tremendous moment to the defendant Xerox. They are of tremendous moment to the plaintiff SCM, whether it's going to be able to attempt to be a competitor over thenext ten years or twenty years, or whether it will be remitted at best to a claim for damages at the end of the case if we are ever here at the end of the case, and it's a case of great moment to the public.

Now, Mr. Robinson has referred to the fact, and it is a fact, always facts that he is talking about, that it's been ten years, and he tries to make a vice out of the fact, and again, I keep repeating facts, because your Honor has to sit here, that from 1963, almost annually, SCM asked for a license and was turned down. He tries to make it a virtue out of the fact that Mr. McCullough -- in the papers that I submitted

last time writes to Mr. Wilson and says it's good tactics to tell SCM that you're giving serious consideration in these licenses, but, of course, we are not.

Mr. Robinson tries to make a virtue out of the fact that -- at least as it's alleged -- that Xerox acquired control over this while SCM was doing its very best, and we will put on the evidence, 27 different projects trying to get into this.

SCM was not sitting on its hands, SCM was down at the Federal Trade Commission urging the United States of America to take action, and finally it did in 1969 by beginning an investigation, and when the complaint was issued, Mr. McCullough, chief executive officer of Xerox, in December or January, calls it a nuisance, says that the -- and Xerox says there is no jurisdiction for the Federal Trade Commission.

Well, SCM, if it was going to -- and made the decision that it was goingto try to be a competitor, it was going to have to do something, it was goingto have to come to court and to be here.

Now, I submit, your Honor, that is not a vice, it's a virtue. I am saying it and not the witnesses, and it's still a factual matter, and as we have cited in our brief, the hundreds of years of equitable principle as expressed in the

Love case, even acquiescence to a continuing violation is not an estoppel to seeking a preliminary injunction to prevent continuation of that violation.

Your Honor, I had not intended to take what I consider to be greater length of time, but I know that you wanted to -- you had these questions.

THE COURT: There is another thing I am curious about. I want to have some idea about what you have in mind doing if you get over this hurdle, what kind of a hearingdo you have in mind?

MR. KAYE: Your Honor, we have in mind a hearing in which we will introduce evidence, largely documentary, through witnesses: that is, through SCM witnesses and through Xerox witnesses, to support our showing of probability of success, if not greater, and to support our showing of irreparable injury to SCM and to the public.

In other words, we intend to do what we understnad theCourt of Appeals requires in a case like this, that is, to submit evidence which will sustain the burden required to for the granting of a preliminary injunction in the regards that we have asked in the -- in our motion, and as we haveoutlined in the papers to the extent that showing warrants that relief.

THE COURT: How many witnesses do you have in mind?

MR. KAYE: Well, I could tell better at this stage,

because we have been attempting to prepare for it and on the basis -- we believe that we can put on our case within two weeks, that is, two trial weeks. We think that as all lawyers that we make mistakes, we think that it will -- that is, SCM's case will take no longer than three weeks.

As to that, your Honor, as far as we are concerned, there is a specific problem that I would like to address ourselves to. We would like to call Doctor DeSauer, who was the head of research for Xerox from 1944 to 1968. He spans the entire -- virtually, the entire period, and we would like to do so because there are a number of documents that he wrote or received that passed between himself and Mr. Wilson and various parties. We would like to have him here for our examination, and we think that we would, as far as that part of the case is concerned, be able to do it in a day or less.

He, however, is retired. He is 69 years old and as we understand it, he lives in Pittsford, New York, which is near Rochester, in the wintertime, and Pompano Beach -- I have it reversed, he lives near Rochester --

THE COURT: I don't want to deal with the specifics of any one witness. I want to get some idea of what you have in mind.

MR. KAYE: We would like to know from Xerox whether or not he would be produced. If not, it's the only deposition

that we would need to take before May 1, with the possible exception of a morningdeposition as to simply to identify certain people within Xerox's organization, so that what I am saying is that we feel that we would be prepared by May 1 to proceed with that.

THE COURT: Do you expect to complete your response to their discovery sufficiently in advance of May 1?

MR. KAYE: Mr. Gotkin can speak to that. We have produced 32 boxes of documents already. The papers under Rule 37 motion show that by February 15, which was four weeks after we had produced 22 boxes, some 50,000 documents, or some number like that, some 4,000 manhours, 500 man days have been spent by that time.

MR. GOTKIN: We expect production to be complete by March 15, your Honor.

THE COURT: Is that discovery or just production of documents?

MR. GOTKIN: I'm talking about the production of documents.

THE COURT: I'm asking about discovery, all aspects.

MR. KAYE: Your Honor, as far as all aspects of discovery are concerned, Xerox has noticed four depositions of SCM people, and that is to be completed by the week of April 27, three SCM people and Doctor Pollack of Van Dyk. If what

you're saying, is all discovery in this case going to be completed, all discovery in this case, as it presently stands, is going to take several years, as I understand it. And Xerox has also noticed deposition of other companies starting on April 29. As I understood your Honor's previous order, it set May 1 as a target date for thepreliminary injunction, and if while this preliminary injunction hearing is going on, if your Honor sets it at that date and Xerox wants to take these depositions in Minneapolis and Lexington, Kentucky, we will have somebody out there to do it, but they will have had the opportunity to examine those people at SCM that they wanted to examine, they gave us the notice and we responded, and, therefore, we think that the parties ought to be ready to proceed on the date that your Honor had previously suggested.

THE COURT: Well, the problem apparently is goingto come up after lunch concerning some of the discovery timetable. You had previously requested 30 days to answer or object to certain interrogatories, and I allowed that. Now, the responses are filed and as to some of them, where there is no objection, the response which is filed in time for the deadline says: we hope to get it by April 30.

MR. KAYE: Your Honor, I didn't know that your Honor was advised about this subject. I didn't know it was going to come up this afternoon. I did not know that any request had

been made to the Court, to address that subject, but since it has and evidently Xerox notified -- chambers that you were going to do so, I would like to address it immediately.

THE COURT: All right.

MR. KAYE: Yesterday afternoon at 5 o'clock, Mr. Fier called Mr. Goldstein and said that the response we served on Monday would be brought to your Honor's attention this morning, the response that I understand Mr. Goldstein gave Mr. Fier was that we understood that Rule 37 motion should be brought on my motion, and this was, in effect, 12-hour notice on this point.

I think that the procedure involved, as required by the rules, is to discuss the matter first and then to bring a motion, but let me put that aside because we are here and I want to deal directly with the merits.

THE COURT: Let's be clear what's at issue. I don't understand Xerox to be trying to short-circuit the Rule 37 requirements or the Local 10 requirements, but I am concerned when you tell me that there ought to be a preliminary injunction hearing on May 1 and you obtained 30 days until --

MR. KAYE: March 3rd, your Honor.

THE COURT: March 3rd -- to respond or object, and then the response says: we will provide it on April 30.

MR. KAYE: This has to do with only the severed patent issues and of the 006 and 881 relating to the coated paper office

copiers which has nothing whatsoever to do with the preliminary injunction which relates to claim one as to plain paper officer copiers.

That's first, and I should have mentioned that first, because this was -- these interrogatories and document requests were not served until December 3rd, and your Honor recalls, in your ruling, that we had the understanding at the time that the timewouldn't begin to run until you decided the severed motion.

Once you decided the patent matters, it would not be stayed, so,in effect, we have responded.

Let me go beyond that. On October 15, when Xerox served their -- October 15 and 24, when they served their responses to our document requests and interrogatories, they answered a number of them by saying: defendant will -- that is, Xerox -- will provide the documents on reasonable notice, and as to some interrogatories, defendant will answer.

In those answers they didn't say when they would give us those answers, and after long negotiations, we were in court here in December on the question of time, and your Honor resolved that.

Then Mr. Fier in his letter to me asked -- thatis, in February -- asked me for a schedule of what we were going to do, so that certainly it was perfectly clear with Xerox's

answers they were not goingto answer. These are matters that take time, so that our response on Monday, first as to the interrogatories, was that as to the 32 interrogatories -- let me talk about -- as to the 32 interrogatories, we are going to respond and have no objection to some 29 or 30, I don't want to be held to precise number, but my recollection is that we say we are going to respond to all of them and give them the information, anda s to two or three, we are going to partially respond, so that there is virtually nothing left with respect to the interrogatories and as to that, we went beyond what Xerox did in simply saying we will give them the answers, we said we will give you the answers on or before April 30, 1972, so that insofar as that is concerned, and these are --

THE COURT: '74.

MR. KAYE: Did I say '72? 1974, I meant -- insofar as that is concerned, your Honor, I think it was more than reasonable and more than reasonable in terms of the highly technical patent issue matters all relating to the severed patent issues. More than reasonable in the light of what we were going to do on the documents on this severed patent issue, relating to the -- only to coated papers, to 006 and 334 patents.

THE COURT: Well, I'm --

MR. KAYE: On the documents we said we would make large numbers of documents available for their inspection

starting April 10, and that prior to that time we were going to give them information as to the places and locations of files.

We have already identified in three locations at least 90 file cabinets of documents which contain many, many documents responsive to these requests. The long and the short of it is, your Honor, that first as to the question of preliminary injunction, this has nothing to do with it, and second, as far as our response is concerned, we think it was entirely reasonable, and if Xerox had any complaint as to the reasonableness of that response, then it should have followed the appropriate procedures.

THE COURT: They have indicated that they want to be heard. I had thought they had alerted you to the fact they wanted to be heard, not necessarily to pursue a Rule 37 motion, but simply to make their position known and invite such response as you care to make. I indicated I would give them that opportunity.

MR. KAYE: I heard it about a quarter to 5:00 yesterday, that's Tuesday.

THE COURT: I will say, it comes as a surprise to me to be asked to extend the deadline to do something, and then extend the deadline and then find that the deadline is met by saying: we will tell you later. In other words, if you needed longer to answer the interrogatories, I would have thought

you would have told me that you needed it and seen whether that was agreeable, but you came in and said you need 30 days. I said, all right, I will give you 30 days.

MR. KAYE: Your Honor, we asked for 30 days to respond, to object or otherwise plead. Now, we --

THE COURT: Which does this do?

MR. KAYE: It objects and it otherwise pleads in this -- in the same regard that Xerox did when they served -- they did not come to court on October 15 or prior thereto and say to your Honor: we need until May 15 to answer those interrogatories. All they said was: we will respond. They didn't even give us a date.

Now, in this instance, Mr. Fier wrote me a letter and said: give me a schedule.

Now, we have given them a schedule, and this is -- your Honor talked about the cost of litigation. This 006 patent litigation is going to be very, very expensive.

THE COURT: Let me just try to clarify one thing. If there was any doubt about it because there are discovery deadlinesin this case, and if they are not completely set, they are going to be set, and they are somewhat related to the Litton litigation, and I want counsel in this case, if there was any doubt before, to understand that a discovery deadline, when there is a date for something to be filed, does not mean that's

the date to come and tell me that it will be done at a later date.

Now, possibly that was left unclear, but I want to eliminate that ambiguity now, that if an interrogatory is to be answered on a given day, that means it's to be answered. If a man is to be deposed by a certain day, that doesn't mean that's the day we will notice his deposition for six months hence.

The deadlines mean the end of that phase. I don't know what I am going to do with this problem. I have not heard what they want me to do, much less give a response to what they want. I don't want this problem to arise in the future. We will have to be back at 2:00 --

MR. KAYE: Do you want us back at 2:00, or do you want to hear -- is there anything left as far as Xerox is concerned on this point, on these patent interrogatories and document requests? I don't know whether your Honor has anything else you want to take up.

THE COURT: I want to take up one thing with you on the basic issue. Let's find out our schedule. What do you have in mind?

MR. FINN: If I have about ten to fifteen minutes, that will be adequate for me. I would hope that Mr. Kaye would have some responses to the questions that I'm going to raise.

THE COURT: Mr. Robinson, do you contemplate any argument with respect to the injunction issue?

MR. ROBINSON: I would like to take about five minutes in rebuttal, your Honor.

THE COURT: It appears we are going to have to come back at 2:00.

MR. KAYE: I would go on with a couple more points.

THE COURT: Mr. Robinson's point is -- at least one of his points -- is that you have not made any adequate claim or irreparable injury, and I as I understand your response is: essentially at the hearing we will give you the evidence.

Now, I am a little concerned whether I need to choose those particular alternatives, or whether there is not some obligation on the plaintiff seeking what is at least the unusual, if not unprecedented, remedy of a preliminary injunction in the Section 2 case to particularize the claim of irreparable injury, rather than standing on the somewhat conclusory allegation that, yes, we have been or will be irreparably injured, and what I'm wondering is whether your burden is not only to particularize your claim, but perhaps to make a rather extensive presentation by affidavit and offer of proof on what it is that ought to require this hearing.

After all, many preliminary injunctions, in general, and in antitrust, in particular, have been resolved on

affidavits. They have not been multi-week trials, and I am not sure that Xerox needs to accelerate its discovery and prepare witnesses and even come in prepared to cross examine your witnesses until there has been an adequate demonstration on affidavit that at least you have a precise claim of irreparable injury, rather than just the naked pleading.

I don't expect a response instantly.

MR. KAYE: I'm prepared to respond, perhaps -- number one is that Xerox has said these are issues of fact. The Court of Appeals for theSecond Circuit has mandated that where there are issues, they are not to be resolved on affidavits, and that where there are plain issues of fact, there has to be a hearing.

Now, in the early chambers conference I referred to the fact that in the Vesco case, which was a three-month, as I understand it, preliminary injunction trial or hearing, the Securities and Exchange Commission had come in with a pile of papers of great size, and the court decided that issues like this cannot be decided on affidavits and required the trial, and in the Spectrum case, last fall, the Court of Appeals said in unmistakeable terms that where there are issues of fact, those issues are to be tried out in an evidentiary hearing.

THE COURT: I fully understand that point and I agree with it. The problem is that at the moment I'm left somewhat unenlightened as to what the issues of fact are, particularly

with respect to the claim of irreparable injury. And issue of fact I don't think is adequately raised in any case by the conclusory pleading.

MR. KAYE: Mr. Robinson raises an issue of fact that SCM doesn't need any of this relief. We have claimed thatthe relief that is asked for is needed, that it is vital to SCM's ability to become a competitor. That is an issue of fact, it seems to me. How much that need is, what we need precisely, what the relief is, the ultimate relief, whether as broad as we want or broader than we want or narrower, that can only await hearing the witnesses and seeing the documents, not only from SCM,but from Xerox.

We have submitted toyour Honor extracts from the Xerox 1972 long-range plan, and one of the reasons why we asked for the relief of allowing the business people to seek is that the very facts set forth as Xerox views it as to what is going to happen in this business is itself self-evident of the irreparable injury that's going to be inflicted on SCM trying to design a machine thatwill come out sometime in 1975, trying to market a machine now that Xerox two weeks after we got into this maybe a year in advance announcement about a machine that will way out-do this machine.

Now, your Honor, I would respectfully suggest that the papers we put in on December 7, that 1972 long-range

plan, show why SCM and other potential competitors are being immediately irreparbly injured by what Xerox itself plans to do tomorrow and the next day and the next six months, and the next year, and in the next five years, and how they want to change the entire structure and the look of this business, and obsolete and so many other machines.

Now, I can't testify, and I don't want to testify, and I think we ought to get to the question of whether or not there is irreparable injury to SCM and the public; indeed, the question is that the Court of Appeals has said possible irreparable injury where there is a possible showing of success, and if we can show at this hearing that as a matter of law the market is plain paper officer copiers, then many consequences will follow as a per se matter.

I'm not saying that we are going to show to a legal certainty that Xerox is a monopolist of the relevant plain paper officer copier market, but if we show just a mite less than that or -- then the Court is going to be in a position of being able to view what the likeli outcome of this case is and, therefore, to free Xerox -- free Xerox for SCM and for all the other potential competitors, like SCM, who are struggling, who are hanging on by their fingernails, trying to stay in this business. That's the irreparable injury, and in order for SCM to try to -- not only to market one machine, but to try

to develop other machines, to try to make up for 13 years.

Now, if we show at this hearing that Xerox back in 1963 unlawfully refused to grant the license and they, therefore, gained ten years of time not only on SCM, but everybody else they refused, then this Court need not sit by for the next ten years and watch Xerox add on and add on to the general injury to the public, to the injury of SCM, which is just one of a number of few people who are trying to be potential competitors, we don't have to wait and let the further intervening events make it even harder. WE don't have to put SCM in the position of just being a litigant in suing for money. SCM isnot in the business of suing, SCM is in the business of trying to market products, be it typewriters, office copiers, plain paper office copiers.

THE COURT: That's why I would think it wouldn't be very difficult to particularize the claim of how you're being hindered in your capacity to market or manufacture plain paper copiers beyond which it has gone thus far, because that's something you know very much about, and you should not have to rely on their long-range plan. That's not goingto tell you why you're having difficulty developing a product. I would think that the matter is susceptible to more particularization, whether it needs it, that's a fair question, that's why I raise it so you can give some thought to whether you believe the pleadings

adequately call for an opportunity to put on proof or whether they ought to be supplemented in some detail.

MR. KAYE: I don't know whether you want us to go back to the amplification of the original complaint. One of the functions of the original complaint was to show the factual matters of the industry in greater detail. WE went into the question of the impact that Xerox has in hurting competition by virtue of their broad product line, the illegality of the development of that product line, the position of somebody who has only one product or is trying to develop one product as against 18.

Now, Mr. Robinson has referred from time to time to the original complaint and in terms of amplification, I am not saying that this answers your question, but I'm not sure that in amplifying our claim that we would not, in large part, be returning to what we expressed at the very beginning of this lawsuit, which were the various areas. As far as irreparable injury and Rank-Xerox, we can't without risk of an immediate patent lawsuit begin to market machines in England and France. We had that experience. When I said we have had that -- I mean, just as in World Hockey, where Judge Higgenbottom said you signed five, you don't have to wait for the rest of them. Are we going to spend millions of dollars to go abroad?

THE COURT: I don't know what the claim is and say, except for theclaim you made today that you can't afford to defend

a suit, I don't know what the claim is of why the prospects of a suit irreparably injures you. That certainly is not a self-evident proposition.

MR. KAYE: I think that Zenith against Hazeltine --

THE COURT: We are going to have to suspend. I wanted to indicated to you an area of concern.

We will suspend until 2 o'clock.

(Recess taken for lunch.)

AFTERNOON SESSION

MR. KAYE: Your Honor, at the very close of session before lunch, I think that you said something along the lines, well, we can't defend this case, we can't defend the case, I think that you -- thatremark, I think you understood my remarks in terms of the enormous expense of patent litigation, as well as antitrust litigation, as being one in terms of SCM and its management of making decision, given, for example, SCM's losses in a business of how much are you going to continue to expend in your on-going business for losing, how much more money can you afford in terms of that line of business to spend for research, add to that the expenses of litigation. At some point in time it becomes a question of a judgment that in terms of the amount of money being spent on that effort, it is so enormous that with all of the attendant risks and the problems and the attempts to get into the business, then a businessman decides thathe is going to stop.

I'm sure you did not understand my remarks in terms of anything other than that kind of approach, not a question of whether a particular company has the funds, SCM has other lines of business which are profitable businesses, but it must make decisions as all businessmen must make decisions as to whether the effort is worth the candle, and that effort includes what the expenses are.

I think this is the point -- in Blonder Tung the court talks about that when somebody is going to go into a business, the question of entry barriers, are there patents, you have to figure in as a cost of business, and often a very substantial cost of business, having to defend patent suits and you may -- that may be a cost of business which makes short-range and long-range the kind of business so unprofitable or potentially unprofitable it's not worth the effort.

That is an anticompetitive effect and it is not to say thatit is an illegal anticompetitive effect if the patent has been acquired validly and it is being exercised validly, but it is -- either way, it's an anticompetitive effect. It's an unlawful anticompetitive effect when the patentee who holds those patents shouldn't have under the antitrust laws the right to exercise that power, under the antitrust laws.

THE COURT: The pertinent question that I'm concerned about is whether that effect may lead to uncertainty that a corporation has, as to whether it should engage in the development, the admittedly expensive development of a new product, uncertain as to whether they will run up against a valid patent, if they go into this, whether that uncertainty or the elimination of that uncertainty is irreparable injury for purposes of granting preliminary injunctions, that certainly is one of the issues that these briefs seem to raise.

MR. KAYE: I think in the opinions of the Zenith case, for example, in the 1969 decision, the court says that the same argument that Xerox has made here is singularly unpersuasive, that Zenith's efforts to go into the Canada market without a license from the Poole, creates waiting risks and they just -- the Supreme Court just rejects that argument in total that Xerox can raise.

THE COURT: Was that a preliminary injunction?

MR. KAYE: It was not in a preliminary injunction context, it was in a retrospective damage context, but the court also points out that the problems of proving damages, even as to past damages, are enormous, very difficult. Yes, that is irreparable injury when it's very, very difficult. The Supreme Court of the United States says that --

THE COURT: Is there any case where a court has granted a preliminary injunction on the basis that doing so spared a company the uncertanties attendant to the business judgment about whether to invest in a new product line?

MRV KAYE: I will say, no, in precisely a new product line, but as to businesses, at least six of the cases we cited, Minolta is one where the court found irreparable injury where the defendant refused to ship to California, and various other states, wherethey had never done that before, and where theplaintiff said: I have got -- I'm a nationwide business

and I can't carry on without it, and the court said that the defendant, if it continues that restraint, which it had continued from -- in all its previous dealings would irreparably injure -- yes, the answer -- and in the MCI case and World Hockey --

THE COURT: In the traditional refusal to deal context --

MR. KAYE: The traditional refusal to deal context is where the two parties have been dealing, and one attempts to cut the other off, and theinjunction requires them to go on with that dealing, that's the traditional, but the Minolta case raises not the traditional one as does the MCI case and as does World Hockey and does Unicom and other cases in the not so traditional context where the defendant never did what theplaintiff wants before, but where the court finds irreparable injury to the plaintiff if the defendant during the pendency of the lawsuit doesn't engage in the business relationships that the plaintiffs want.

THE COURT: Your point, as I understand it, is a little different than that, it's not that there will be that kind of injury, it's that your client ought not to have to take the risk of investing large sums of money not knowing whether or not at the end it will be able to compete or face valid patents.

MR. KAYE: My client says: yes --

THE COURT: The World Hockey Association doesn't say

that. They didn't say: Judge, we have got a lot of players and we are perfectly willing to go into the business, but we would hate to have to spend all this money only to find out that we can't do it. Their point is: we can't go in at all, we can't get anyone to come to the hockey games if we can't sign these players. They weren't talking about just the risk of having to invest money not knowing about theoutcome.

MR. KAYE: I think we are now talking -- I respectfully suggest we are talking about two points. I say that, and SCM says in this case, without the technology and the people, yes, SCM can't be in, first of all,the technology level as to even a fraction of the 19 models or machines they have. They can't be in manufacturing them and, therefore, they can't be in marketing, so that the answer is: yes, there is that irreparable injury because ofbeing deprived during the pendency of the lawsuit of all of those matters.

Now, as related to the question of computation of damage, we are left, if we have to wait until the end of the lawsuit, with the problems of uncertainty.

Now, when the Supreme Court in Bigelow and the Story Parchment -- and Chief Justice Stone in the Bigelow case, as well as in the Haverhill case -- which was cited by Xerox previously -- there are great imponderables and uncertainties, that's what Zenith says -- even in the past it's very difficult

to figure out damages.

Now, the fact that the wrongdoer bears -- has some responsibility with the risk of uncertainty, doesn't take out the element of uncertainty. It may be that because of the uncertainty that the defendant may result in less because, as Chief Justice Stone said, there is a scylla and charybdis, here the plaintiff even under this rule is not entitled to damages where they are speculative or guesswork, and what did the court in Zenith -- says as to damages? They said as to the past, it's very difficult, but certainly as to the future, that is, after the day of the trial up into the future, every lower court in the U.S. will say they are speculative.

So that your point this morning with Mr. Robinson was directly in point, because if we are denied relief now and can't -- to the extent that the Court permits in viewing the alleged illegality of Xerox and getting us into this business -- if we have to wait until ten years from now to begin that process, at least according to the Supreme Court, we -- speaking -- describing it in terms of what the District Courts would do, we would not be allowed to have any future damages, so that we are irreparably injured in terms of that future beyond.

Our ability to compete has been lessened during the pendency of this lawsuit, but I come back to the point that I

made this morning, whichis, SCM is one of a few, perhaps a growing number, of people that wants to be in this business.

SCM is an organization of people, it's not inanimate. These are people who want to engage in the business process, they want to engage in the competitive process, and they want to do it having access to those essential ingredients that are required to do it in.

They are not in the business of bringing lawsuits for the sake of getting money at the end of a long time and beyond that the whole function of the statute is to protect the public interest,and this brings me to the point that you asked before lunch.

We think that your Honor need no further papers on the question of irreparable injury. And I have not tried to -- I think that I have been trying to respond to your Honor's questions rather than develop any argument, and I didn't intend to develop any argument because I think it's in the briefs that we have stated it fully and sufficiently, not only as to irreparable injury and other things, but that -- at this juncture, unless the Court determines that Xerox -- is persuaded by Xerox's argument that as a matter of law, our papers do not suggest any possible irreparable injury, any possible irreparable injury at all, then we should proceed to the hearing of a preliminary injunction, just in the same manner as if I filed a

complaint and if no motion to dismiss is made or if a motion to dismiss is denied, or if no motion for summary judgment is made, in order to get to trial and to be able to come to court, I don't have to submit preliminary papers as the plaintiff in order to get to trial.

THE COURT: Not necessarily. One of the things that has been done in this type of suit, Judge WEinfeld has done it, is to require before trial on merits a very detailed presentation of proposed findings of fact so that it will be clear what the plaintiff intends to prove and try to see if the issues can be narrowed. If that's appropriate on the merits, it seems to me it's very appropriate in advance of the rather unusual, if not unprecedented request for preliminary relief in a Section 2 case. So it doesn't necessarily follow that once you get past the motion to dismiss, you areinto the trial.

MR. KAYE: Judge Wozanski has railed against the government for the thousands and thousands of papers that were put into evidence in both the Grinnell case and the United Shoe case and said a few papers could have done.

We are trying to follow that approach. Whether we are successful at it or not is another question. If, in a Section 2 case, which is of much greater importance to the public and to the private party -- because of the alleged monopoly that Xerox has throughout this business and which it

hopes and intends to keep for the next 20 years, and which it has had for the next 15, in a monopoly case, all the more reason for a preliminary injunction hearing as compared, let's say, to a -- tothe hearing that's held on a SEction 7 case, be it Gulf and Western or a hearing that's held in the Vesco case for three months on some financial transaction of a few individuals, here is a case of major public importance affecting the entire United States and commercial business. All the more reason for hearing as early as possible a preliminary injunction.

Now, your Honor did give Xerox the opportunity to make a motion to dismiss, and it seems to us that unless the Court can determine as a matter of law that there is no possibility of any irreparable injury to SCM and to the public, because once we are here isthe Court -- once we are here showing that we are one of those potential competitors, then the Court has the power, indeed, which it ought to exercise if it seen that not only will SCM be injured in certain respects, but the public will be injured in many other respects, to grant very broad relief.

So that unless the Court makes its findings of fact and conclusions of law under Rule 52, in effect, denying our motion for preliminary injunction as a matter of law on the basis that there is an assumption that we will prove to a legal certainty the allegation in the complaint, but nevertheless, as a

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matter of law, there is no possibility of irreparable injury, it seems to me that's what is required in order to sustain their motion, that we should go on with the hearing and that the various things that we have set forth in the memorandum do go to the irreparable injury.

I have not spent any time this morning, for example, just one small example, as to why we say there is irreparable injury which should be remedied by virtue of giving us the long-range and short-range plans.

If we start from the assumption that Xerox does have this enormous monopolistic position, technology one level, marketing another level, manufacturing another level, and their billions of dollars of sales have produced if the millions or whatever the numbers of market research efforts, a thousand to one of our market research efforts and all of those efforts are illegal and their attempts to gain the new opportunities are illegal, than for us, barely in the business and barely trying to break into the business, for us to filter our way through this mindfield, it would be appropriate to let us know what Xerox has accumulated illegally, we say, as to what are the kinds of things that customers are looking for, what direction are they going with a particular machine, are we going to with what we -- are we going to bump square into them and knock us right out of the business, so that we can at least try to survive in this

business. We ask only for the opportunity to try to develop that record.

It is difficult to see how, given everything we say in the amended complaint, to be true or the strongest likelihood of being true, that there is no irreparable injury to SCM, an admitted potential competitor, and admittedly in Xerox's own papers somebody who they specifically intended to exclude from plain paper office copying competition by their own documents.

I don't want to say that to your Honor, I think that is a tender of proof, as we tendered proof December 7, as we tender proof on this matter, and we hope, your Honor, that we -- that your Honor concludes that we have overcome the two issues that we understood we were dealing with, or subsidiary issues to the one main issue, which was: should our motion for preliminary injunction be denied as a matter of law right now.

If, and to the extent there is any narrowing of our opportunity at the preliminary injunction hearing to prove anything or to seek any relief, to that extent the motion has been denied as a matter of law. We don't think your Honor should do it. These are the kinds of things we should be arguing after the evidence is in. AS to the likelihood of success, as to the irreparable injury to SCM, the irreparable injury to the public and to the kinds of relief that you ought to --

THE COURT: I was not suggesting a narrowing of issues, but rather a more precise indication of what was to be proved to see whether or not the allegations warrant a hearing.

MR. KAYE: Your Honor, number one, we think that, right or wrong, that we have sufficiently discussed irreparable injury in our briefs, that it cannot be determined as a matter of law that there is no possibility of injury, of irreparable injury, that when we are here starting from the assumption that everything thatis said in the complaint is true or is most likely true, and it has a worldwife effect, every day that Rank-Xerox goes on doing what they are doing is impairing our ability to try to break in as a new entrant abroad with American made machines, being controlled from Stamford and Xerox Square, with operations being run worldwide as if it's one company when, in fact, it's two, and then insofar as each one of these -- this broad product line is concerned, they have 18 models with a 19th coming on --

THE COURT: It seems to me that's a rather different point what they have. What I'm interested in is what you don't have, or how you will be hurt. They might have 50 models, but if, in fact, you are able, and there is some indication to first have the technology to develop a new model, and apparently your client has been willing to commit some funds to market it --

MR. KAYE: No, your Honor.

THE COURT: They have not?

MR. KAYE: No, your Honor. SCM has tried for ten years to develop technology and has not yet developed technology which enables it to manufacture a plain paper copier.

THE COURT: I am not sure whether it's on technology or --

MR. KAYE: They just bought a machine from somebody else who made it. That does not make SCM a viable competitor.

THE COURT: It's some indication that you're not irreparably hurt by their strangle hold on all the technology in the world. If you were able to go out and buy it, whether you hire Mr. Van Dyk's scientists or you pay Mr. Van Dyk to sell you a machine, that certainly doesn't have any bearing on irreparable injury.

MR. KAYE: I assume you will agree these are all questions of fact. That it is -- if Xerox wants to argue, when we get finished, that because we are able to buy a machine and market forty million dollars worth of those machines, and this is where I get at the models, which has the possibility of competing with one of their 19 models, and in order to be an effective competitor you have to have -- when you walk into a customer, he has this requirement, he has that requirement, if SCM wants to try to become a competitor, not tomorrow or in two years in terms of being able to stand up across the line, but five and ten years and fifteen years from now, it has to have

the technology all the way along the line. It has to have the technology that Xerox is now working on that's going to produce a brand-new machine four years from now that's going to either open up a brand-new market that SCM can't possibly get into or obsolete SCM machines.

The point is that if SCM is going to try to be a competitor as well as the other competitors, and if the public is going to have the benefit of something more than competition between IBM and Xerox, then at every point along the line, SCM needs the availability to their technology, the availability to their marketing plans so that they are not knocked out of the box before they get started, the availability to people.

Now, Xerox takes the position with respect to IBM, that the only way IBM could have developed such sophisticated models that they have, is because back in the '50's Xerox turned over all their information under agreements, and Xerox claims that they violated the trade secret agreements.

THE COURT: They are not disputing that there can be such a thing as monopolization of technology, they are not disputing that, at least not today, that may be their claim at another stage of litigation, but that's not today's issue. They are saying that you have not shown that whatever monopolization technology they have has irreparably and

immediately injured you.

MR. KAYE: That's my point, if Xerox is prepared to say today, as I think it must, that they have monopolized the skill and technology of plain paper office copiers and if I come in on May 1, and we have given them the documents already, and I show that in 27 different efforts that we have made, that 13 or 14 of them look like they were not feasible at all before we ever got to studying patents, and another 13 or 14 of them wound up infringing any number of their massive number of patents, and that, therefore, we couldn't go ahead because it faced the risk of a patent infringement proceeding, and if I show that we asked for a patent license and that it was unlawful, assuming they were monopolizing and assuming they acquired their monopolgy by acquisition, as they did, then we show irreparable injury because it is the very technology that they have monopolized that they have denied to us that we need because we are attempting to be in this business.

It is different -- SCM is different in terms of its call to the Court for protection of the antitrust laws than Stephen Kaye walking down the street.

I have never been in thatbusiness, I have no capacity to be in that business, and I have not got the equipment or the resources to even given to be in that business. SCM has been in a related business, it has constantly strived and

struggled to be in that business, Xerox has always recognized it as a potential plain paper office competitor and has always refused to let it in to what we say is illegally acquired assets. This is not only domestically, but abroad, and the immediacy of it is that every day that passes is a day that we are not able tocompete, and every day that passes is a day that the public is not going to be able to get the possible benefits of some competition with Xerox, and I say that it seems to me that the issue that your Honor has framed is a simple one in this regard.

Does your Honor determine, let's -- assuming all of the truth of the allegations of the complaint -- that as a matter of law there is no possible irreparable injury, if your Honor so concludes and your Honor will in accordance with the rules make your findings of fact and conclusion of law and deny our motion as a matter of law -- conversely, if you find otherwise, thatit cannot be said as a matter of law that there is no possible irreparable injury to SCM and no possible injury to thepublic, and the public interest in this case is very important, then your Honor should -- it seems to me, we respectfully request that you overrule Xerox's objection and in accordance with your previous decision, at the Court's convenience, direct the parties to appear for hearing.

THE COURT: Supposing we put to one side for the

moment your claimed preliminary relief for disclosure you have of unpatented technology and we also put to one side your claims for preliminary relief with respect to nonenforcement of whatever employee restrictive covenants are or were in existence, just put those two to one side for a minute, what are you seeking preliminarily besides those two areas?

MR. KAYE: I'm trying to keep it -- we are in paragraph -- we are seeking that during the pendency of the action that we are not being threatened or -- with any patent infringement litigation and none be commenced against us, or in 51, we are asking for a license as to all of Xerox's patented technology, and when I say in these two regards, it is not only to what they have now, but what they acquire during the pendency of the lawsuit.

We are asking for the disclosure of the long-range and short-rangeplans, that's not what you excluded, as I recall.

We are asking for -- as we have developed in the briefs and as I think we were perfectly entitled to -- as Judge Herland in the Minolta case and various other decisions have cited -- we are perfectly entitled to ask for such other and further relief as the Court may deem just and proper, and in focusing on this issue, we ask that if we make the shoving that is assumed, that Xerox berequired -- enjoined, overall, in a way

that freezes Xerox's position so that they cannot during the pendency of the lawsuit do new acts which will further complicate and will -- not only complicate, but produce intervening events which will, during the course of the action, cause injury, such as its control over Rank-Xerox, which it acquired in 1969.

Xerox says in its brief that the traditional use of the injunction is to prevent the defendant from using that which the court finds to likely have been illegally acquired, therefore, if the Court were to find that Xerox's acquisition of control of Rank-Xerox was a likely violation of either Section 7 of the Clayton Act or Section 1 or 2 of the Sherman Act, we would want that relief, but overall, insofar as we are able to make a showing, and we intend to come in to make a showing as to our complaint, the first claim, that to the extent that there are acts and practices which will continue, which are shown to be illegal, or where there are effects of previous acts, such as its previous acquisition of control of Rank-Xerox, those should be put into a freeze just as in Alcoa couples, as we cited to the Court in our brief, and various other decisions, and for the very kind of reasons, and this is of the highest moment of irreparabel injury, as we explain in the El Paso situation, where 17 years elapsed and where Chief Justice Warren after the third divesture hearing in the fourth El Paso Supreme Court said that delay had increased El Paso's strangle hold over

the California market.

It was the very kind of a situation that if there had been preliminary injunctive relief that kind of problem and that kind of an extraordinary period of time would not have been necessary, it's not to say that in view of the earlier proceedings that one would have been granted because El Paso in the early days of the case --

THE COURT: What form would that take, is it simply an order that during the pendency of this suit they shall not violate any antitrust laws?

MR. KAYE: No, not at all. Take the Rank-Xerox -- during the pendency of this lawsuit, Xerox shall not exercise any voting control over Rank-Xerox, and shall not do any -- take any steps that shall in any way impair any independent operation of Rank-Xerox, and we intend to prove -- or we hope to be able to prove, that one of the reasons they took over Rank-Xerox is that Rank-Xerox in its previous condition had some different ideas as to how things ought to be done than --

THE COURT: That's not freezing them if I say to them that they can't exercise their vote, that's undoing their right they have now, isn't it?

MR. KAYE: It's a right that they have now, but this would be -- you would be doing exactly what Judge Meredith did in Alcoa couples and which has been done in other cases that we

have cited, where it says that we will go to the point of the acquisition and we are going to take it back to that point before the acquisition -- that was what Mr. Robinson was talking about, the last uncontested status. We are going to take it back there and take it back there -- this all assumes a high degree of showing illegality. It must be said each time I say it, that we have to show that to the Court's satisfaction that there is a real very good chance that we are right, but by doing that you then -- there are two things that happen. SCM who is -- an American marketer trying to go abroad and public -- is not -- is not going to have to try to get into Europe facing not just Rank-Xerox as an independent, but Xerox is the center of the world over all of the copying business, and at the same time, Xerox is depending upon the bredth of the decree -- is not going to be able to obtain during the course of thelawsuit the benefits of what the Court finds as a likely continuing violation of the law.

Now, this is the point that Judge Mulligan made in Danielson, and it's referred to in other authorities, and really the points of the Court of Appeals in Minolta is that the status quo to be preserved can never be a situation where -- as far as the Court can see -- is allowing a defendant to continue to violate a statute which expresses public policy.

Insofar as the California aspect of that --

Judge Mulligan said, that if this court after hearing all the evidence perceives monumental antitrust violations, then it should act, it should act in SCM's interest as one of several potential competitors, and acting from a paramount point of view, from the public.

Judge Timbers, I believe in -- it is perfectly plain inthe Gulf and Western case that he considered, and the court considered that the public interest was the paramount factor. He said that in a subsequent opinion, Guardian Associate, I have given your Honor the citation -- it was a dissent by Judge Timbers, I believe reading the opinion it makes clear that the dissenters and Judge Timbers and the majority were not disagreeing what Gulf and Western meant, the majority said they didn't think there was a substantial due process question.

Judge Timbers said -- what I think we said in our memorandum -- which is when it comes to a question of a preliminary injunction, we held, referring to his own opinion in Gulf and Western, that the paramount factor in rendering a decision on a preliminary injunction is thepublic interest.

Now, to come back to your question as to what we are asking for, there are subdivisions, and what Mr. Robinson is talking about is afterthoughts, in many cases, were subdivision of the larger. If the arrangement with the Battelle Institute, which has been going on now since 1947, the

fountainhead of the technology for plain paper office copying, continues to go on where Xerox every day acquires [illegible] -- as a matter of traditional preliminary injunction law, you could enjoin Xerox from acquiring any of these patents, just as it's an asset or any patent applications or any unpatented technology or in the stock of any companies.

Now, insofar as that kind of relief would be more severe to Xerox: that is, being denied the use at all of both the patented and unpatented technology, then the relief that we ask for, which is a -- okay. What we are saying is, although the Court could go further and say to Xerox: you cannot acquire another piece of technology, you can't expand your sales offices, you can't do any of these things, what we are saying is that instead of forbidding at this juncture -- forbidding Xerox from acquiring, we say the Court should do something less, do not stop them from acquiring, but at least let us of access to the new patented technology and unpatented technology, and that requires a license that you require.

Going back to Judge Learned Hand's decision in Alcoa, he made it very clear that no matter how sincerely motivated Alcoa was in trying to look to new opportunities and to fulfill new demands, once it became a monopolist -- and I don't remember the dates he talked about -- in 1941 -- and Alcoa could see expanding demands and they built new plants, no matter how

sincere and how honestly industrial that motivation was, nonetheless illegal because Alcoa was the one with the great organization, the nucleus of people, the customer connections, and they were the ones who were able to realize that, but in doing that, they suppressed and they created greater and greater barriers for anybody having the temerity to come in and compete, or to put it another way, more pejoratively, despite the lack of intent, they suppressed the possibility of new entrants and new competition by being -- by first having acquired the monopolistic position and to see all the new opportunities, to build the plants in advance and thereby to keep and maintain their monopoly.

Now, we are here in two capacities, we are here for SCM and we are here by virtue of the Supreme Court's view as to what our role is as the private attorney general. We are here asking the Court for the promptest possible preliminary injunction hearing so that whether the Court ultimately concludes we are right or wrong, we have at least the opportunity to develop the record to try to demonstrate that SCM is right and the allegations of the complaint are sufficient to warrant the preliminary injunctive relief.

My associate reminds me -- we feel that -- we hope that the Court will proceed to a decision on Xerox's objection as promptly and as conveniently as the Court can to this

we can continue assuming -- assuming the Court overrules the objection, we can continue towards the hearing.

Nevertheless, I want to say to the Court that if and to the extent Xerox wants to make any proposals by way of consent orders or anything else like that, we certainly would be prepared to sit and listen, but that ought not to delay, as far as we can see, any decision by the Court, since it would be a matter of attempting to settle the preliminary injunction aspect of the case and as to which it ought not to affect the question whether as a matter of law a preliminary injunction motion should be denied, and in that regard we rely on Columbia Steel where the court said that even if the defendants' offer turns out to be all that they are entitled to, it's still that -- that issue ought not to be precluded, and I am also reminded what Judge Weinfeld did in the Grinnell case where he was asked to look at the papers and tell the parties what relief that the judge thought he would give, and the judge did not want to do that, he thought it was -- he thought he shouldn't do it, and when pressed to it, he finally told the defendant that as far as he was concerned, having looked at various depositions and exhibits, he would grant far more reaching, far more substantial relief than the government itself asked for, above and beyond -- I'm sorry, I didn't mean to interrupt Mr. Robinson.

MR. ROBINSON: I'll try to be brief, your Honor.

Mr. Kaye has referred to the Columbia Steel decision on a couple of occasions, and since it was cited in his reply brief, we have not had an opportunity tocomment on it, so I would like to pointout very briefly why the case is entirely beside the point.

The issue is whether the Court could enter a preliminary injunction in a government antitrust suit where the terms of the injunction were proposed by the defendant and objected to as insufficient by the Department of Justice. The Court held that it had no power to enter such an injunction under the federal rules without holding a hearing. It stated that this was necessary because under the rules it has to make findings of fact and conclusions of law justifying the issuance of an injunction and it couldn't do so under those circumstances.

The issue before your Honor is quite different. We are not saying that you should enter an injunction, we are saying precisely the opposite. Our point is that, SCM cannot be irreparably injured by the denial of an injunction, and in that connection we say that our undertaking not to seek preliminary injunctive relief in any patent infringements, that might be brought, underscores the absence of irreparable injury.

Now, in that connection, what Professor Moore states in his treatise is particularly apt here. Irreparable injury is now shown when there is no showing that defendant is

attempting to do or intendto do what the plaintiff seeks to have enjoined. So that Columbia Steel is really completely alien to what your Honor has before you on this motion by Xerox.

THE COURT: Would it be possible for you to submit quite promptly, in whatever terms you care to specify that undertaking? I just don't think it's fair to deal with that as a matter of oral argument.

I am not suggesting that your words have not been carefully selected, but the plaintiff does raise questions about the coverage of any undertaking, whether by license or whether by forbearance to sue, and I realize there is something in your brief about it, and something in the record today about it, but it seems to me if that undertaking is to play any part of the resolution of these issues, there ought to be on one piece of paper Xerox's rather definitive position as to just what it is it is undertaking.

MR. ROBINSON: We would be very glad to furnish that to Mr. Kaye and the Court.

THE COURT: I am not suggesting anything other than ambiguity, but I think it would be well to have that in one place. I don't know whether it's going to be dispositive or even relevent, but to whatever extent it plays a part, I think we all ought to know which piece of paper we are talking about when we say this is our agreement or undertaking, and

as I understand it, it's not a settlement offer.

MR. ROBINSON: That's right.

THE COURT: It's just a representation of a position.

MR. ROBINSON: Exactly.

THE COURT: And doesn't call upon them to do anything, to abandon other claims or anything of the sort.

MR. ROBINSON: That's correct, sir.

I am delighted that Mr. Kaye saw fit to refer to the short and long-range plans this afternoon, your Honor, because I think that really underscores what we are up against here. When he talks about long-range plans and short-range plans, and SCM having to have those plans, he is really cheapening the currency to the point of nonrecognition.

He cannot conceivably establish that SCM will be irreparably injured if it does not gain access to our long-range plans. He may be able to say that he would like to have the long-range plans for this, that and other reason, but how in the world he can stand before your Honor and say this is irreparable injury within the meaning of Section 16, I just can't understand.

IBM doesn't have our long-range plans, LItton doesn't have our long-range plans, Van Dyk doesn't have our long-range plans, Savin doesn't haveour long-range plans, Saxon doesn't have our long-range plans, neither does Sperry Rand or Minnesota Mining, and neither does Reprox, and all these people

are in the plain paper copier field, and why SCM has to have these plans pendete lite is absolutely incomprehensible to me, and I think to any fair minded person.

Now, the best proof that SCM is not irreparably injured is its resistance to your Honor's suggestion that a particularized list be supplied. We say there is no indication for a hearing here as a matter of law for all the reasons I have gone into. But if your Honor had any doubt on that score, it seems to me that you should insist that SCM provide the list that you indicated was appropriate.

That list should specify not only the kind of relief that SCM says it wants by way of preliminary injunction, pendete lite, but how it will be irreparably injured specifically with respect to each item of relief that it says it needs.

We have talked about the patent license and we have argued that they don't need it because of the undertaking that we have made. That's one story. Rank-Xerox, it seems to me, is quite another story, long-range plans -- that's a joke, but that's the kind of thing that I thinkthat they should be required to do. They really should have their feet held to the fire here in view of the successive requests for preliminary relief which seems to be absolutely endless.

THE COURT: Is it your view that before a plaintiff can obtain different kinds of preliminary relief, he has to

demonstrate the irreparable injury that will follow if he is denied each kind?

MR. ROBINSON: Yes, sir.

THE COURT: Or can he say: I am irreparably injured because of their violation and in order to remedy, or at least to hold the situation from further injury, I want various forms of relief, whether or not each particular form is the source of irreparable injury?

MR. ROBINSON: It seems to me that when you're asking for something as extraordinary as a preliminary injunction, your Honor, you ought to be able to point out with respect to everything you ask for, why it's a matter of urgent necessity for you to have it and, typically, you don't have that problem in a preliminary injunction case because the plaintiff tells you, it's perfectly apparent what was needed in the World Hockey litigation, apparently what was needed in the De Laurentis case, perfectly apparent what they were seeking and sought unsuccessfully in the Columbia Picture case. This is the only case I know of where you have a laundry list that has no end to it.

Now, this morning we heard for the first time the fifth wave. This had to do with the provision in the employee agreement having to do with nondisclosure of trade secrets and other proprietary information after termination of employment. That was never before your Honor. We never focused on that.

You can read SCM's brief from today until the end of the year and you will never find any such prayer in there for relief against that kind of normal clause. What they were talking about was the two-year covenant not to compete, and there can't be any doubt about that because all you have to do is read their amended complaint.

THE COURT: I suspect he would consider that, the trade secrests within the heads of personnel to be a subject category of his request for unpatented technology.

MR. ROBINSON: I don't think so, your Honor, I think what he is saying is that -- he is saying that in Paragraph 53 of his amended complaint -- I am not going to let him get off the hook so easy on this one -- in Paragraph 53 he says, "During the pendecy of this action, Xerox should be enjoined against enforcing or attempting to enforce the agreements described in Subparagraph 27D."

27D says, "The acts and practices of Xerox since 1961 include, among others, requiring its research, scientific and technical personnel, and since 1970 its managerial and professional personnel, to execute written restrictive agreements, preventing or restraining them from engagingin xerographic activities for any other company following termination of employment with Xerox."

If there is any doubt as to what that means, all you

have to do is to look at the original prlix complaint where he sets out in Paragraph 52 precisely the clause that he is talking about, and I quote, "For the period of two years following termination of my employment by Xerox Corporation for any reason, I will not independently engage in xerography or directly or indirectly serve or advise in xerography or be employed in xerography by any individual, firm of corporation."

That's what we were talking about, that's the two-year covenant not to compete, and that's all that he was asking for, and now, because we abandoned it three years ago, he is looking for something else to hang his hat on, so he talks about the trade secret clause, which is an entirely appropriate form of prohibition that is widely used in American industry and it seems incredible to think that a court would order as a matter of preliminary relief or any other kind of relief that employees should be free to disclose confidences and trade secrets that they obtained during the course of their employment.

Now, one final comment, and then I am through. Frankly, I was flabbergasted when Mr. Kayeindicated in response to your Honor's question that what he contemplates here is three weeks of testimonial hearings just to put on SCM's case if this matter goes to a preliminary injunction hearing.

THE COURT: His estimate was two.

MR. ROBINSON: I think he said two or three later on. In any event, it's in that range.

This, to me, your Honor, doesn't sound like a motion for preliminary injunction. It sounds to me like it's practically a trial on the merits without affording Xerox a fair opportunity to get its discovery in support of its defenses.

I say that's an absolutely intolerable situation. I say that there shouldn't be any hearing here as a matter of law, but if we are going to have a hearing, it should be a preliminary injunction hearing in the accepted mode, which means that the plaintiff comes in with motion papers, affidavits. The defendant has an opportunity to controvert those affidavits and then if there are issues as to which it's appropriate in the Court's view for testimony to be received, we have that testimony, but we don't have a trial on the entire gamut of the allegations of the complaint, which, in effect, would be a trial of the merits of the action, only without the benefit of having had an expedited schedule and without the benefit of having had our discovery.

WE have outstanding right now -- Mr. Kaye referred to these deposition notices int he SCM case -- to take the deposition of SCM, Van Dyk, and a number of other plain paper copiers, that schedule has been set beginning on -- in mid-March, I think it goes into June.

If Mr. Kaye has his way about it, he would be engaged in two or three weeks of testimonial hearings on this preliminary injunction motion before we have an opportunity to even depose some of these competitors who didn't need the access to the Xerox employees or the Xerox technology in order to come into the plain paper copier field, and it just seems to me that the procedure here is all wrong, that this is an effort to get an expedited trial in the form of a preliminary injunction motion, and it's not to be countenanced if Xerox is to be given its fair day in court here.

I think that we have demonstrated to your Honor that there is no irreparable injury here as a matter of law. SCM is full of platitudes and conclusions and will not get down to cases and specify where the irreparable injury lies, and I think that under those circumstances our motion should be granted and no hearing should be held.

THE COURT: Before you conclude, with respect to your detail of an undertaking with respect to prosecution of patent infringement, when I asked you whether you were expecting anything of them, you indicated: no.

MR. ROBINSON: A royalty, a reasonable royalty.

THE COURT: I didn't want to leave open the financial aspect of it, either by royalty, if it were a license, or by bond, if it were a forbearance to sue, because I assume that

whatever -- you would want some indication that if you win, you have not waived the infringement damages or the royalty income.

MR. ROBINSON: My feeling is, and this is, of course, subject to discussing it with my client, that we would want to have a license pendete lite in return for a reasonable royalty which we would collect as we go along, that's what I indicated this morning. I was uncertain as to whether there was any difference between that an a forbearance to sue, and there may be a difference, but in any event --

THE COURT: The one difference that occurs to me, I appreciate your point that conceptually they serve the same purpose, but it seems to me there may well be a practical difference in the ease with which one can appear. The forbearance to sue can be drafted entirely by you with a proviso only that a bond be posted in a certain amount, whereas the license is going to require some negotiation about -- there would be a lot of details to it, and what I suspect will happen if that is explored is, I am not inviting disagreement, but I just sort of get the feeling from some things that were said today that I will be confronted later on with claims from both sides that it was the other side's fault that we weren't able to work out a reasonable license, and frankly, I don't want to be in the position of assessing blame for that breakdown.

And it seems to me that forbearance to sue is

a neater approach because it avoids all those questions. You tell us what it is you won't do, and then I am left to decide whether that undertaking is a reason to either limit or limit their claim or deny it.

MR. ROBINSON: We will give very serious consideration to your Honor's suggestion.

THE COURT: Another thought that occurs to me in that area, because Mr. Kaye has raised the claim, that even if he were protected against interim relief in an action, the prospects of suit at all would injure him. Now, one that occurs to me in that connection, which I would think you might be willing to do, is to undertake to give as an adequate notice, perhaps 90 days, prior to the filing of an infringement action.

MR. ROBINSON: This is in lieu of a forbearance?

THE COURT: No, in addition. The forbearance has to do with the seeking of interim relief with respect to an infringement action, as I understand it.

MR. KAYE: No, your Honor. I understand Mr. Robinson -- and he can correct me -- he has said today, that it's any suit at all, not merely interim pleading.

THE COURT: I didn't understand that. Is that right?

MR. ROBINSON: We went further, your Honor, this morning.

THE COURT: I thought it was in terms of interim relief.

It's forbearance to sue.

MR. ROBINSON: It's an interim license, but it's forbearance to sue, not just forbearance to seek a preliminary injunction. That was the step that we took, that was one step further.

THE COURT: Then, aren't you going to need more than a bond, aren't you going to need a waiver of the statute of limitations?

MR. ROBINSON: If we issue a license, let's say --

THE COURT: If you go that route, I understand. But I'm still apprehensive that the possibility of a license being rapidly negotiated is not promising.

MR. ROBINSON: Your Honor's point is very well taken, because we had not been thinking in terms of forbearance as opposed to a license, we would have to consider as well a waiver of the statute of limitations.

THE COURT: I thought the papers at some point had focused on this question of not seeking interim relief?

MR. ROBINSON: That's right. We said in our briefs that we undertook not to seek a preliminary injunction in any patent infringement action that we might bring during the pendency of this case. Now, if we brought the patent infringement action, statute of limitations point dissolves. We said if we bring it, we will just try it on the merits, and we won't

get preliminary injunctive relief so you wouldn't be stopped.

THE COURT: That's what I was focusing on, if you did that.

MR. ROBINSON: Then we went further this morning as a result of your Honor's inquiry as to why we wouldn't give them a license during the pendency of the lawsuit, and we said that we would be prepared to do that, at least as far as our domestic patents were concerned, and as far as the foreign patents were concerned, and in principle, we agreed that we only had to make a determination as to whether there would be any inconsistency with Rank -- their obligation to Rank.

THE COURT: But you would need some acquiescence by them that you will not have lost the right to assert infringement damages during that interim.

MR. ROBINSON: NOt if we are getting paid a royalty.

THE COURT: Not if you go the license route, but if you go the forbearance to sue route.

MR. ROBINSON: That's correct.

THE COURT: Whereas, if you just gave up the right to seek interim relief in your infringement action, you wouldn't have a statute of limitations problem, and what I thought would be the problem then, which is Mr. Kaye's concern, the mere threat of a lawsuit subjects his client to irreparable damage. I understand you don't agree with that, but that is nevertheless

the claim that I'm just trying to reckon with, and it seems to me that might be dealt with by a notice provision, because it may be that if we can try this case in not an unreasonable time, I hope the ten-year point was an argument and not a prediction, I hope it can be tried in one, two or three years, and not ten, it may be that you wouldn't have any occasion to bring a patent infringement action at all, but there would be the safety valve if you thought you should, you would give some appropriate notice, say, 90 days, at which point if that became the critical issue on preliminary injunctive relief here, Mr. Kaye can comeback to me and say: well, they are going to sue us, so now I need preliminary injunction -- in any event, I don't want to require any decision at this point.

We identified three possible areas in which you might make representation. Either a license or a forbearance to seek interim relief in a patent infringement, or a forbearance to bring patent infringement action at all -- and each of those carry some qualification with them, either a bond or waiver of statute of limitation or notice provision, there are different details, and you may well come up with another notion, so all the more it seems to me important that you submit by letter precisely what you are prepared to do and what they will have to do, if anything, to get the benefit of your offer.

MR. ROBINSON: We will do that as promptly as possible.

MR. KAYE: May I have a moment? To the extent that any representation requires something that we must do in a way we are talking about negotiation to attempt -- apparently attempt to settle the question of preliminary injunction.

THE COURT: Not necessarily. After all, if they say: this is what we will do provided there is a bond, that's no more than you would be met with if you won your motion.

MR. KAYE: Insofar as this relief is concerned, not including the other relief.

THE COURT: That's right.

MR. KAYE: I understand that. In other words, it would be, in effect, what, a consent entry of preliminary injunction on the following basis, we will --

THE COURT: It might not be at all.

MR. KAYE: If it's a bond or the equivalent of a license, then, if it's a bond, then we are here in a preliminary injunction.

THE COURT: Not necessarily.

MR. KAYE: If it's a license amount, which I say would be the equivalent of a bond, it certainly would be on the basis if we paid it during the course of the lawsuit, and I think Mr. Robinson and I agree that if there is a provision, it ought to probably be a license with the royalty, we would -- SCM would

certainly say, that at the end of lawsuit if we win, we want all our royalty payments back because it would have meant we would have been paying tribute on 1400 patents that we were -- was unlawful, so that it's hard for me to see this in any context other than what your Honor has talked about this morning, which was, at least as to those elements of relief to which they are willing to represent, a consent preliminary injunction, otherwise, it's a negotiation.

THE COURT: Perhaps it's a small quibble, but I don't understand them to be saying that their representation inevitably leads to a consent preliminary injunction, even on narrow grounds. It may well be that they will say to you, along the lines we have just explored, they will do certain things. They agree to do them, and maybe all you are required to do is put up a bond.

MR. KAYE: So long as I'm required to do anything, it seems to me the Court's process has to be invoked. If I say that -- if they say they want to license it at 22¢, and I say reasonable royalty is one and a half percent, unless SCM agrees either by some kind of a settlement of the preliminary injunction, unless the Court -- I don't believe the Court can say, without a hearing: you must accept those conditions.

THE COURT: I'm not at all suggesting that. If they say: we will forebear to seek interim relief in an infringement

action provided only that you post a bond in a certain amount, I wouldn't for a minute think of requiring you to post that bond, but I would think seriously about entering the motion for preliminary injunction if you were reluctant to post the very bond you have to post if you won your motion.

MR. KAYE: Your Honor, I think that would be evident, and I respectfully tell you why, I think the first question that has to be determined by the Court is whether or not the injunction should be granted, and it's based on that evidence and any supplementary evidence that the parties offer thereafter that the Court determineswhat the magnitude of the bond is. I don't think that the Court can reverse the process or should reverse theprocess and say --

THE COURT: A multiweek hearing to determine the amount of the bond, I don't think we need that.

MR. KAYE: As I recall, Judge Higgenbottom had a session -- or whether he used the evidence -- but it was after he determined to -- or as part of the hearing -- as to what he considered what would be the relevant bond, but if Xerox were to say: you need a bond of ten million dollars for this relief, and, your Honor, as I understand it, they are not talking interim any more, but they are talking about no lawsuits on any patents, I think that was Mr. Robinson's undertaking this morning. If they say they want a bond of ten million dollars,

I think your Honor would have to wait and see what the evidence was before you could determine whether or not that was feasible and I think --

THE COURT: If all you are saying, if they come in with a proposal thatconterplates a bond, you want to be heard on the question that the bond is excessive, of course, I will hear that claim, but it doesn't mean I have to hold a hearing on a Section 2 monopolization claim in order to determine the reasonbleness of a bond.

MR. KAYE: Your Honor, this only covers one element of the relief that we ask for.

THE COURT: I understand that.

MR. KAYE: And it also reflects -- the preliminary relief, because we also haveto find out whether they are talking about suppliers, as well as ourselves, customers, we have to find out the full -- whether it's abroad, whether a number of these matters that was raised -- but they go only that far and that if a representation were made that they covered that item of relief in order for it, as we see it, to deny a preliminary injunction motion, it would be necessary to determine as a matter of law, without a hearing, that there is no possibility that we could grant relief, I think your Honor put your finger on it before talking with Mr. Robinson. We don't have to show, it seems to me at this juncture, that we are going to be able to

show specific irreparable injury from each act, if we show overall irreparable injury from thiscolossus, then it's up to the Court to determine where the relief is necessary, and that's one of the great functions of the traditional clause for such other and further and alternative relief, because the plaintiff may ask for the wrong relief in the light of his showing or it may be to the Court that it will be more stringent or less stringent or it should be in a different form.

Two things that I want to finish. I was surprised to hear Mr. Robinson say he was not going to let me off so easily on these employment agreements, the reason was that I was surprised, I thought he would express regret to the Court that he perhaps had spoken too quickly about the fact that the issue was moot. This morning I read to your Honor a document, the employment agreement containing Paragraph 2, which prevents an employee from going to work in xerography for two years after he leaves, the very one that was in theoriginal complaint, which according to Xerox' attorneys, has been in effect from mid-1966 to present, so quite to the contrary of anything being moot, this is a piece of paper that Xerox attorneys gave to us, and I'm sorry that at least after this point we couldn't have retired -- we'll sort of look into it, there is difference between our original complaint, Mr. Robinson likes to refer back to it. We do, too, in terms of the greater amount

of detail, but there was a change. Originally, we believed, on the basis of the information that we had, that that provision was the only provision, and it was still up to date. Before we had the amended complaint, we had the other agreement, so as far as the interrogatory answers are concerned, Xerox has informed us these two agreements are in effect, we don't know with whom they are in effect or not.

The other agreement has been one on unpatented technology -- by virtue of having those two agreements, our allegation reads: preventing or restraining, so that we have added an allegation by virtue of this particular document.

Your Honor, you asked a question before about relief. We would like to rely fully and completely on our briefs as amplified here. I don't mean to say that if there was a question that was asked and there was an additional answer that we already got in these briefs, as you know, as have spent a great deal of time on them -- and carefully -- for example, as tothe irreparable injury. I don't know whether I finished answering your question fully, as to all -- we rely on the --

THE COURT: I was not trying to --

MR. KAYE: I understand that. I understand that. The concept that Mr. Robinson raised that we should now file affidavits, I think is already answered by the Court of Appeals

in the Spectrum case, where we came in in December, and we made a showing on market, we put in 13 or 14 exhibits which we felt show very strongly, if not to a certainty, that Xerox itself considers thought its own license agreements and its own expression, theplain paper office copying is a separate relevant submarket, Xerox felt that wasn't the time to analyze that particular factual contention and said -- Mr. Robinson said it's a factual issue; there are factual issues all over the place.

Now, the Court of Appeals, in Spectrum case, last fall, made it perfectly clear that when you have factual issues, they are not to be resolved on affidavits; we can put in an affidavit, if what Mr. Robinson is saying is what we did in December on market we should do now again --

THE COURT: No, I think that the issue is quite different. The problem in the fall was that discovery, the scope of discovery should be limited because of your affidavits trying to show that the relevant market was, as you defined it, narrowing, at least narrower than they viewed, and he objected to being denied theopportunity to develop his claim as to the relevant market.

Now the issue is quite different. Now the issue, as you indicated, how to deal with the factual dispute, but the suggestion that's been raised is not that the factual

dispute should be resolved on the basis of affidavits, only that you should have to, in effect, make an offer of proof to see if your factual claims, once detailed, are sufficient, but not to resolve conflicts between the facts alleged, that's quite a different point.

MR. KAYE: In that regard, your Honor, I say two things. One, I think we have made in the complaint the allegation -- whether you look at the original complaint as amplified or the amended complaint -- allegations which do not require us in order to have the right to have a preliminary injunction hearing on a relatively expedited basis, to come in. WE don't have -- I don't think is a matter of law there is anything further that is required of us in order to prove that where already Xerox says every one of these issues are hotly factually contested issues.

Now, when I say -- when I refer to the December papers and to that -- Exhibits 1 through 10 and 11 through 13, we think that we have made a very strong showing through the mouths of the executive officers of Xerox and through their acts, their license agreements which broke up coated paper from plain paper, that plain paper is a relevant submarket.

Now, Xerox says that's not so. We say that there is no point in us putting in an affidavit. The fact of the matter is that if the Court finds thatit's a relevant submarket

as a per se matter, every one of their exclusive agreements that are in existence now, and every one of their exclusive agreements, be it with Battelle or anyone else, are per se illegal, and the Court would grant relief on that basis.

THE COURT: I think the focus is not on your detailing your elements of antitrust violation, but your detailing the claims of irreparable injury sufficient to entitle you to temporary relief.

MR. KAYE: Your Honor, they are intertwined. Let me make this point -- when we -- in Paragraph 26 or 27, when the effects of the violation are the effects on all potential competitors and actual competitors, one of which is us, one of which is SCM, that when we expose the violations, one of which is the refusal to grant license to SCM repeatedly, when we expose all of those and the effects, the increase of barriers, the greater difficulty of getting into the business, we are, in fact, showing theirreparable injury to SCM as a potential competitor, to other competitors, and then to the public as a whole, and that the only function of any further affidavits on which the Court has just said, you can't decide this motion, will be to delay further and to delay further.

Now,we made our motion for preliminary injunction on July 31. We asked for a hearing, prompt pretrial conference. Xerox objected to that. We had that conference. Xerox made

its motion with respect to the amended complaint, the original complaint was delayed, and we have been pressing for a preliminary injunction from the veryoutset of this case on July 31. We are prepared to go ahead on May 1, despite the fact that Xerox has been very, very slow, leaden footed in delivering the documents that -- and the answers to the interrogatories of July 31, we have not had a flow of those documents as they indicated, we are going to get them on April 1 --

THECOURT: After all, I have their Rule 37 motion concerned with yourlack of compliance, so we have plenty of problems --

MR. KAYE: My point is that wherever it stands, we are ready to go on May 1, and we think that any further delay in going ahead with it, assuming that day or thereabouts is convenient to theCourt, is only a delay which works in favor of Xerox, as far as the substance of their alleged monopolization of this entire business and ourability to try to get moving into this business. When I say "ours", I mean SCM.

THE COURT: All right. Now, we have to give the reporter a moment for a break.

I assume there is something still to be said about the problem with respect to the interrogatories?

MR. FIER: Yes, sir.

THE COURT: Do the parties contemplate saying anything

about the pending Rule 37 motion, or is that to be submitted on papers?

MR. ROBINSON: As far as Xerox is concerned, your Honor, that matter has been submitted on the papers. For all we knew, you had decided it already. Nobody asked for oral argument.

MR. GOTKIN: We are not seeking oral argument. We are content to rest on Rule 37 papers. I might send your Honor a letter bringing you up to day on where we are on our production of factual documents, if that's in order.

MR. FIER: Good afternoon, your Honor, may it please the Court. I would like to speak for a few minutes to the question of discovery, which was due and owing by SCM to Xerox on March 4, 1974, and as to which I think it's quite clear that SCM is in complete default. I think I would like to clear the blurred record on whether or not adequate notice was given of my intention to discuss this today, your Honor, so if you will bear with me, we received plaintiff's papers at about 5 o'clock on Monday, March 4. It was about 4:30 yesterday, March 5th, at which I decided that the only course of action open to Xerox was to raise this matter with your Honor in thehope that we would have a quick resolution of this situation without the need for filing another motion and having returned briefs and

thelike.

I spoke to Mr. Goldstein, who was the newly enlisted patent counsel for SCM, who advised me that he was not intending to be here today. I told him I considered his papers to be in default, that his client was in default, and that I intended to raise that question and the attendant issues today, and I suggested to Mr. Goldstein that it behooved him to be here.

I also told Mr. Goldstein that I was going to tell the Court of my conversation with him so that there would be noquestion about notice. Mr. Goldstein thanked me, and about five minutes later called me back and told me that he had just discussed the matter with Mr. Kaye and it was decided that Mr. Goldstein would nonetheless not attend today's session.

Now, your Honor, you are, of course, completely aware of the problem of this discovery which necessitated pretrial ruling No. 5 for the simple expedient of dealing with a 30-day request for time. Originally, that 30-day request was made to me directly by Mr. Kaye. I told him that if he would object to those requests which were objectionable in his view, within the 30-day period, and give me a schedule by which he would produce that, there would be no problem.

Mr. Kaye apparently thought differently about my suggestion and came to court for 30 days.

Now, I believe, your Honor, that this total lack

of response and this default violates the spirit of your ruling No. 5 without question. I also think it's an imposition on me and my client.

In looking at, for example, the interrogatories, which plaintiff says theyneed 60 more days for, it being understood, of course, they have been in their hands for already three months, aside from interrogatory 1, which simply requests privileged documents, the next dozen interrogatories seek the foundation for certain allegations in the complaint.

Now, the complaint was drafted by the Proskauer firm, and presumably any other lawyers who were involved in the case, long before patent counsel was retained. It would seem to me that the responses to those interrogatories should not take 60 days, they should have been done in the one week in between your Honor's ruling No. 5 and the date thatthe responses were due.

The next fifteen interrogatories, give or take one or two, request the names of employees of SCM whohave certain knowledge of the license agreements previously entered into between theparties.

Here again, this is not the kind of broad sweeping interrogatory which requires special knowledge. In fact, newly appointed patent counsel here, again, wouldhave no knowledge of this. He would have to go to the plaintiff

corporation to get that information the same way any other lawyer would.

I think, your Honor, the question here is whether or not SCM is dealing with this discoveryin good faith, or whether we have a situation where there is a lack of manpower to deal with all the various problems. I noted from listening to todsy's arguments, as well as on other occasions, SCM is quite concerned with making haste and making sure that everyone else is moving quickly, but that doesn't seem to apply when they have to respond to this kind of discovery.

In terms of the question of good faith, for example, I look at plaintiff's responses to defendant's interrogatories 1 through 43. The 32nd interrogatory says: "Identify each person who was consulted or whose documents or files were consulted in preparing the answer to any or all of the foregoing interrogatories."

The answer here is: "SCM has no objection to this interrogatory and will provide the requested information to the extent that such information is presently in the possession of plaintiff."

That simply doesn't make sense. That's the same answer that was given to about 20 of theother interrogatories.

ON the documents request, your Honor, without going into the specifics of the requests, I can represent

certainly that these requests are very narrow and very specific. The question of where to look in plaintiff's files for these documents could be ascertained with very little work.

What I would like to propose today, your Honor, is that if Mr. Kays will be somewhat cooperative, and I don't mean him personally, but if he can speak for his lawyers, I would like to get agreement without going through all of the paper work necessary, that as to the first 17 interrogatories, which I mentioned have to do with the complaint, that I have answers as to those by March 15, and that as to the balance of the interrogatories, that I have answers by the end of the month. I don't think that's unreasonable at all. I think it's unreasonable to make me wait until April 30 for all of those.

As to the documents, I note that as to one large portion of the documents, Xerox is invited to inspect certain files which will be made available on or about April 10th, and it would appear that other documents will be produced thereafter.

Here again, your Honor, I see absolutely no reason why document production should not start on March 15 with increments through the end of the month, hopefully by April 15, for example, they will be completed.

Now, if this is a question of manpower, unfortunately, I'm only too familiar with your Honor's ruling in the Litton case which seems to deal with that question very

definitively, and I would like to hear from Mr. Kaye or whoever will speak for SCM on issues that I raised and I wouldlike to see if we can resolve this problem here today.

MR. KAYE: Your Honor, I don't know whether you have the copy of the response of SCM?

THE COURT: Yes.

MR. KAYE: We did not file one. Of course, there is no motion filed and no notice, and there has been no compliance with rules of this Court with respect to negotiation, nor is there any motion, as far as I can tell, that's before the Court, so that I don't know whether there is anything that is before the Court to be ruled on. I think that's the procedure that has been followed -- has been entirely wrong, and I think that calling up at quarter to 5:00, if that was the time, to -- for a party to itself, in effect, sign an order to show cause, is not the procedure. Nevertheless -- do you have our response?

THE COURT: I was handed by defendant's counsel two documents, one called: Plaintiff's response to defendant's interrogatories 1 through 32, and the other: Plaintiff's response to defendant's second request to produce documents.

MR. KAYE: Was there a letter asto what the issue was to be put on, is there anything else that was --

THE COURT: Just those two documents.

MR. KAYE: Was a statement made as to what the point

was?

THE COURT: I had assumed that these two documents were filed, I had assumed not from anything Yorck's counsel said, but I had assumed it apparently incorrectly from the fact that SCM was under an order to file these documents by March 3rd.

MR. KAYE: I'm sorry, your Honor, I never understood that a response -- so-called response -- to a document made -- is something that has to be filed, that if theotherparty is not satisfied with response, it then makes a Rule 37 motion, after negotiation, that the response itself is not a fileable document. That has been my understanding. I don't know, for example -- I just want to get back to the procedure, that was followed by procedure, and I am reading from its response to us. Page 1. "Defendant will make availablecopies of the documents requested for inspection by plaintiff upon reasonable notice at a place to be agreed upon insofar as the defendant does not object below."

This is on October 24.

THE COURT: Before you get -- let me understand part of what papers are available. Are you sayingthat when each side answers interrogatories, they don't submit those responses to the Court?

MR. KAYE: In terms of filing to the Court?

THE COURT: Yes.

MR. KANE: At least in our district, we do not file the response, that is, a document called response, the same as XErox, we have response. Under the new rules -- when I say "the new rules" when the amended rules came into effect -- you give the other side a response, and then if there are objections or problems, you try to work them out, and then the paper that is filed is the Rule 37motion, which deals with only those -- that portion that may be at issue. You can have a response that's three inches high and have only one or two issues, so you only put in the papers only the matters that are at issue.

Your Honor, I cannot speak to the practice here in this district, having been relatively new, but in any event, what we did here -- what Xerox did on October 24 was say they would make copies of the documents available for inspection on reasonable notice, but they didn't say: we are going to give them to you in 30 days or in 60 days. They didn't say when they were going to give it to us, and various of the responses say: we will give you the documents, or we will giveyou only so many of the documents which you requested as follows, and the rest of them we object to, but they don't tell us what date, and when we received this, obviously, in view of the 120 days of extension of time, we knew then that we were not going to get the documents right then and there, and then we had a deposition with them. After that was over, in late November, we came to

court and we said they should have until the end of January as to some, and the end of December as to some, and your Honor rendered a ruling.

As to the interrogatory answers, they said in their answers: we will give you the answer. Theydidn't tell us when.

THE COURT: They weren't under the same kind of time deadline you were, were they?

MR. KAYE: Yes, your Honor, the exact same extension that we got we gave to them to respond. I think we got from your Honor -- under your Honor's ruling. We gave them an extension to respond to answer or otherwise plead, whatever those words were, because I think they were the ones that they offered to us. WE signed that stipulation and gave them 114 days, and this is the response that we got, but they didn't tell us, as we said on Monday, we didn't -- they didn't give us any time schedule and they came to court here and said they needed to May 15 to figure out when they could do it.

In a case, whether this one or thispatentcase, I don't think either side -- expected by any look of the rules or any other ways, that all of the documents were going to be responded, but in fact, Xerox, despite your Honor's order, has given us -- and they gave it to us three days ago -- they gave us one box of documents so far, your Honor had indicated in

your order, as counsel had said, that there was going -- they expected that things would become available as they came along. The same complaint that we make, and we made it privately, and we did not come to court over it because we were going to accept the situation, and we will get them presumably by April 1, and we will do the best we can, but exactly the same complaint I am talking about now was made by the Federal Trade Commission in the motion filed last week, just as counsel stood here and said there would be a continuous flow of documents, in Washington he had said there would be a burst of documents in January, the FTC -- that says thatsince August, Xerox has given them .10% of what they agreed to give them.

But now I want to come to the interrogatory. We now say in the documents, in response to the documents, there that we are going to start making them available on April 10th.

Now, we are talking about millions of documents, and we have said that as to the first two requests on documents, we consider them to be burdensome, we didn't say that we considered them to be irrelevant. In some instances we have specific relevance objections,but we have ascertained in three facilities alone over 300 file drawers with millions of pieces of paper, and that by April 1st we will tell them which of those file cabinets or drawers they -- come in and look at all of the documents, because we know now and we have been working at it --

that many of them are responsive.

Now, it is hard for me to believe that Xerox can claim that our response in that regard is unreasonable.

As to the interrogatories, I think it is not only-- apart from the fact thatit's the morning after, a call at this time of day, but for counsel to say that these interrogatories are easy as pie, 1 through 19, when they say as to each one of them: give us every fact and circumstance that you know that relates to this claim, every single fact and circumstance, and we say we will do it, and they say that can be done overnight, your Honor, I think that theCourt is being put upon, it's being put upon in a situation with respect to this 006 patent where I respectfully -- most respectfully -- and I would not have raised this point, your Honor -- I say it with the greatest restraint and respect and greatest deference -- Xerox has other pending suits on 006 patents which are laying dormant where there are no counterclaims against them on antitrust, where they have been filed a long time ago, in Saxonand SAvin, no antitrust counterclaims, Xerox is not interested in pressing their claim, they are interested in pushing us as hard as they can, and in view of your Honor's ruling, we are going to move that case as hard as we can.

Mr. Fier says we should have answered them by February 3. The fact of the matter is I have been heavily

involved in the patent side of the case and I have been heavily involved in this briefing schedule.

Mr. Fier in his letter of February 3 didn't say: answer them on February 3 or answer them on -- give us a schedule. We have given them a schedule. Mr. Fier points to interrogatory 32 and says: read the interrogatory, it happens in the Litton case that precise interrogatory was objected to by Xerox on the ground it calls for work product and attorney-client privilege.

We looked at that and we said, we are going to give them the information. In fact, on the 32 interrogatories, we said we would give them every one of the 29, and as to three others, we have -- we say we are going to give a portion of them.

Your Honor, I don't think there is a motion before you. If there is a motion before you and you want Xerox to submit some kind of papers with a proposal, we will respond to them. I think that my response ought to be adequate as far as this time is concerned. I think that we -- that there is nothing further that it be involved with this -- I understand your point from this morning. I think that both sides now understand your point, so we will both deal with it that way.

UP to this point, Xerox in the first instance, and SCI in the second instance, felt these extensions of time

did not require to answer all of those, and we understand, and I think SCM understands, and I think Xerox now understands, what you had to say this morning about the particular deadlines, but insofar as claiming or making any charge here of bad faith or anything else like that, I think it's out of order. I think it's out of order when we followed theprocedure that they followed, and particularly where we followed the procedure which we thought was reasonable, and which in this circumstance is reasonable, also.

THE COURT: Certainly, I agree with you nothing is pending on this question, and I also think I understand that your answer to Mr. Fier's specific question is: no.

MR. KAYE: My answer, your Honor, is we have said on the interrogatories that we will furnish thoseanswers on or before April 30. I say to the Court that we will furnish them as they are available, as did Xerox.

Now, Xerox has not fulfilled, as far as we can tell, that undertaking. They didn't do it -- they said they would have a substantial portion by February 15, they didn't do it. I happen to have participated in these, and I know we are already working on answers to the interrogatories, I personally reviewed answers, I personally felt they were not yet complete, that there was more work to be done, and I don't think that we should be needing here responding to any unfounded and

unwarranted accusations of bad faith made not against SCM, but its attorneys in this court.

THE COURT: I don't think he is claiming bad faith. He anticipated that he would have some responses on March 3rd, and he is alerting me to the fact that his expectation has been disappointed. AS I understand it, that's the point he wants to bring to my attention. I don't understand him making any allegations of bad faith.

I think the only way I can deal with it is this: there is nothing pending, and there is no Rule 37 motion pending. I don't have a shortage of Rule 37 motions, so I don't need another one. I think it's a matter -- this is precisely why we have the local rule on discussion. If the parties believe that there is a dispute between them as to discovery compliance, they ought to see if they can resolve it, and if the timetable Mr. Kaye has proposed seems unsatisfactory to Mr. Fier, they ought to discuss it and see if they can work out an agreeable timetable.

If they can't, and counsel for Xerox thinks that the net result of that negotiation gives them grounds for Rule 37 motion, then, unhappily, they will have to present it, but I don't think I can simply take the fact of SCM's response as the basis for making any kind of peremptory ruling.

MR. KAYE: We don't ask for a ruling rejecting anything, now, it seems to us, is there anything to grant.

THE COURT: I understand. I think it's a matter for negotiation, and if negotiation is not satisfactory, then for the submission of whatever motion the disappointed party thinks is appropriate.

MR. FIER: I had understood your Rule 10 to relate to objections made to discovery, and not to a situation where a party is in default in terms of granting any answers at all. I didn't know that I was -- are you telling me, your Honor, that I may not, at this time, submit a Rule 37 motion seeking sanctions against SCM for failure to answer interrogatories and failure to produce documents, I cannot do that before I discuss the matter with the opposing counsel?

THE COURT: Well, I suppose you are right, that the local rule contemplates the issue of objections, primarily, perhaps totally, and possibly this issue is different. It would seem to me that before any side wanted to request the Court for any sanctions, there would be the most informal exploration if it's really needed. We have already had one default motion in this chain of litigation, not in your case --

MR. KAYE: The reason I say that is -- Mr. Fier -- is perhaps not familiar with the fact that we did raise the question of time after our discussions by way of Rule 37, and it

Mr. Fier goes ahead with his motion and it's granted, then the fact is that Xerox has been -- on the very argument that Mr. Fier has been making, Xerox has been itself in default with 95% of the interrogatories and document requests to which on October 24 they said they would respond by either giving us documents or giving us the answers.

THE COURT: Is that the situation --

MR. FIER: May I ask you this question first? Plaintiff was careful to point out in their responses that to characterize the patent case as the "the now severed patent case", your Honor, are you treating the patent case as a different case from the antitrust case in the sense, for example, would I be in a position, assuming that I had complied with everything that I had to, that I had to, would I be in a position to seek a stay of all proceedings until the entire case pending a response to discovery in the patent case, or is this being treated separately, patent case here, patent antitrust case here?

THE COURT: Well, I don't really know quite how to deal with that inquiry. Separate for what purpose? The issues were severed, which normally means, severed for purposes of determination, that the fact finding won't occur simultaneously.

MR. FIER: That was my understanding.

THE COURT: What other consequences flow from severance, I don't want to just deal with on the spur of the

moment. They are not separate cases. They don't have separate numbers if that's the measure of a case, but the issues under 42-1 were severed, and what remedies you might have in the event something untowards happens on the severed issue, what remedies you might have with respect to the other issue, I just don't want to begin to speculate about that on the spur of the moment.

I don't mean to say you have no remedy, but I certainly don't want to suggest that you automatically have a remedy either, that raises a lot of problems that hopefully won't arise.

MR. FIER: Your Honor, I appreciate your time. I was hopeful that plaintiff's counsel would agree to a more reasonable schedule. I see that my hopes were wrong.

THE COURT: If it's the fact that -- as Mr. Kaye indicates -- that, in fact, he's adopted a practice which Xerox has already initiated, that when Xeroxwas confronted with a deadline, albeit the deadline given by consent of the parties rather than by resolution of a dispute as to deadlines, they met their deadline by filing a document timely which said: we will comply subsequently. Then it's certainly not surprising that he would have thought that's an adequate way of responding to your request.

MR. FIER: I'm going one step further, in the hope that's behind us, I am saying now, okay, he is talking about

April 39, I was hopeful here today I would get a different schedule proposed to me, even though it might mean some additional work and effort on the part of SCM, to that end I have been unsuccessful, so I will follow your suggestion, your Honor, and take it up informally and if I still don't get anywhere, I will give you another motion, maybe I can give it a different title.

MR. KAYE: I hope no motion is made. I don't think our willingness to make available the enormous number of documents on April 10 for inspection is unreasonable, and interrogatories -- and we are still waiting for what are probably going to be substantial documents on a number of our items that relate to patents and technology, and hope that Xerox can use its large legal manpower to fulfill its existing obligation, and we are going to do our best to fulfill ours, and we have already done that in large degree with respect to the production which will be finished by March 15 on Claim 1.

WE ought not to be back in court on matters like this, your Honor, in my personal -- my own personal feeling.

THE COURT: All right. On this question of what ought to be filed, it had been my assumption, and the clerk indicates that it had been the practice, I don't know there is a rule on it, that responses to interrogatories -- first interrogatories have been filed when they have been served and that responses

have been filed. I assume that also -- requests to admit and responses to those and it seems to me preferable to have a court file complete with those documents.

I appreciate that a disputed item would come on by Rule 37motion, but it may well be that some of those disputes are resolved by reference to what's in nondisputed items, and I won't have those.

With documents, I certainly don't want the parties to have to file here every document they produce. Is it realistic to think that when you exchange documents you accompany those with a list, either by item or by category, of what you are producing?

MR. KAYE: I can on answer that we have received -- we have received documents from Xerox, for example, the FTC package, without a list.

MR. ROBINSON: I don't think the practice is to provide lists.

MR. KAYE: And we received a carton day before yesterday, the first group of documents, in our July 1 -- without a list and with code numbers that Xerox has affixed that they know the code numbers. Some cases we have duplicates of the same number received by difference people. And we have no correlation.

MR. ROBINSON: We just got boxes of documents from our

adversaries, that's the custom.

MR. GOSKIN: That's usually the way it's done.

MR. KAYE: Our rather substantial production, likewise, as Xerox, has not been accompanied by lists of documents.

THE COURT: All right. Let's not complicate that aspect of it, but it isappropriate to have interrogatories and their responses filed.

MR. KAYE: WE will file ours, and we assume whenyou say "response", whatever is said be it objection, a statement like ours, or an answer, anything to do with the interrogatories will be filed?

THE COURT: That's right. And on the documents, I don't want a duplicate set of the documents that are produced, but where there is a response to a document request that raises objections, in other words, the very piece of paper that's been handed to me today, it seem s to me it may well technically not be a pleading, but it's a document that probably ought to be in the file.

MR. KAYE: We will file.

THE COURT: All right. The only pending matter is the Xerox demurer, I suppose it is, or however phrased, and I will reserve decision on that. I am to receive from Mr. Robinson whatever specifics he cares to make on what his client will do with respect to the [illegible] covers anything

else, such as employment contracts, I would be interested in that. I'm not requiring it and I'm not suggesting that having it would be dispositive, but I'm simply searching for clarity and precision as to whatever it's going to be said in response, and I appreciate the parties need a decision here quickly, on the other hand, there are some significant issues that I don't want to do them a disservice by deciding the decision peremptorily, but I will endeavor to get at it promptly.

MR. KAYE: We want to say, in accordance with your previous decision, we will continue to prepare towards the May 1 date that both parties are aware of that date and --

THE COURT: It won't be time wasted, because in any event, there will be a trial.

MRV KAYE: WE hope it will be a preliminary injunction, your Honor. Thank you very much for your time.

(Court adjourned at 4:15 p.m.)

E 753

LETTER DATED JANUARY 18, 1974 CONCERNING THE PRELIMINARY INJUNCTION SOUGHT BY SCM

PROSKAUER ROSE GOETZ & MENDELSOHN
300 PARK AVENUE
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WRITER'S DIRECT DIAL NUMBER
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TELEX ITT 421170
WU 125452

January 18, 1974

Stanley D. Robinson, Esq.
Kaye, Scholer, Fierman, Hays & Handler
425 Park Avenue
New York, New York 10022

Re: SCM Corporation v. Xerox Corporation,
Civ. No. 15807

Dear Stanley:

I am writing to avoid any possible misunderstanding concerning the preliminary injunctive relief sought by SCM and Xerox's asserted legal defenses to the granting of that relief.

In its brief to be submitted to Judge Newman, SCM intends to show the existence of the Court's power to grant a broad range of preliminary injunctive relief, prohibitory or mandatory or both. SCM intends to show that Xerox cannot sustain its contentions of legal insufficiency of SCM's request for the kinds (or lesser-included kinds) of preliminary injunctive relief described in paragraphs 49 to 53 of the Amended Complaint, and SCM's request for such other or further or alternative relief as may be appropriate or necessary and as the Court may deem just and proper (as contained in its preliminary injunction motion of November 16, 1973 and paragraph 54 of the Amended Complaint).

E 754

Letter Dated January 18, 1974 Concerning the Preliminary Injunction Sought by SCM

PROGRAM

SCM considers that such other relief may include additional kinds of relief described in the Joint Position of Control Data Corporation and other companies (Exhibit 1 to SCM's motion); any other relief fashioned by the Court to ameliorate what, after hearing, the Court may perceive to be continuing and future harm to SCM or the public from violations or threatened violations of law; or any relief needed to preserve the Court's ultimate ability to fulfill the statutory objectives and to grant meaningful final relief.

Sincerely,

/s/

S. R. Kaye

SRK:er

cc: Hon. Jon O. Newman

E 755

LETTER DATED FEBRUARY 22, 1974 CORRECTING
REPLY MEMORANDUM OF SCM

LAW OFFICES OF
JACOBS, JACOBS & GRUDBERG

ISRAEL J. JACOBS (1918-1963)
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207 ORANGE STREET · NEW HAVEN, CONNECTICUT 06510
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OUR FILE NO. 7910-R

February 22, 1974

Hon. Jon O. Newman
United States District Judge
United States District Court
for the District of Connecticut
New Haven, Connecticut 06505

Re: SCM Corporation v. Xerox Corporation
Civil No. 15,807

Dear Judge Newman:

We have noticed two errors in our reply memorandum on behalf of SCM filed February 15, 1974, which we would like to correct.

In the first full paragraph at page 17, it is incorrectly stated that Rank-Xerox initiated patent proceedings in the United Kingdom against IBM. Rather, Xerox has initiated patent proceedings against IBM in Canada, in addition to its patent proceedings against IBM in the United States; and, as reported, Rank-Xerox has initiated patent proceedings in both the United Kingdom and France against subsidiaries of Gestetner. Certain aspects of the French proceedings are more fully described at page 17.

Also, in the second full paragraph at page 37 of SCM's reply memorandum, the references to paragraph 50 of the Amended Complaint should be corrected to read paragraph 49 of the Amended Complaint.

Respectfully,

JACOBS, JACOBS & GRUDBERG, P.C.

By /s/
DAVID L. BELT

DLB/hrk
cc: Kaye Scholer Fierman Hays & Handler
Kenyon & Kenyon, Reilly, Carr & Chapin
Cummings & Lockwood
John R. Murphy, Esq.

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E 757

COPY OF EMPLOYEE PATENT AND CONFIDENTIAL INFORMATION AGREEMENT

XEROX
NON-TECHNICAL CONFIDENTIAL

XEROX

WELD THE TITLE
MID 1966 - TO PRESENT

EMPLOYEE PATENT AND CONFIDENTIAL INFORMATION AGREEMENT

In consideration of my employment by Xerox Corporation (hereinafter "Xerox") and of the salary or wages paid therefor, I agree:

(A) During the period of such employment, I will not independently engage in the same or similar line of business or research as that carried on by Xerox or, directly or indirectly, serve, advise or be employed by any individual, firm or corporation engaged in the same or similar line of business or research as that carried on by Xerox.

(B) For the period of two years following termination of such employment for any reason, I will not independently engage in xerography or, directly or indirectly, serve or advise in xerography or be employed in xerography by any individual, firm or corporation.

(C) During the period of such employment, I will communicate to Xerox promptly and fully all inventions, discoveries or improvements conceived or reduced to practice by me (alone or jointly with others), and I will and hereby do assign to Xerox and/or its nominees all my right, title and interest in such inventions, discoveries or improvements and all my right, title and interest in any patents or patent applications based thereon, and I will assist Xerox and/or its nominees (without charge but at no expense to me) at any time and in every proper way to obtain and maintain for its and/or their own benefit patents for all such inventions, discoveries or improvements anywhere in the world.

(D) Except as my duties may require or as Xerox may otherwise consent in writing, I will not at any time disclose, either during or subsequent to my employment, any information, knowledge or data I may receive or develop during my employment, relating to trade secrets, formulas, business processes, methods, machines, manufactures, compositions, inventions, discoveries or other matters, which are proprietary or confidential to Xerox.

(E) As used herein, "xerography" shall mean the art of forming and utilizing an electrostatic charge pattern to make visible images directly or through one or more intermediate steps, including, without limitation, the formation of an image in response to the action of light.

(F) My obligations hereunder may not be changed or modified, released, discharged, abandoned or terminated, in whole or in part, except by an instrument in writing signed by an officer or other authorized agent of Xerox.

(G) This agreement shall inure to the benefit of and be binding upon the heirs, personal representatives, successors and assigns of the parties hereto.

(H) Except as stated on the reverse of this page, I have no agreements with, or obligations to, others in conflict with the foregoing and I do not now own or have an interest in any patent application or unpatented invention.

Employee Signature _____
(Sign first name in full)

Date _____
(To be written by employee)

Witness _____

Sign All Three Copies

SA 000282

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E 759

LETTER DATED MARCH 8, 1974 CONTAINING XEROX'S UNDERTAKINGS REGARDING PRELIMINARY RELIEF

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER
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March 8, 1974

Hon. Jon O. Newman
United States District Court
United States Courthouse
Hartford, Connecticut

Re: SCM Corporation v. Xerox Corporation

Dear Judge Newman:

This letter is in response to Your Honor's request at the oral argument on March 6th for a written statement of the undertakings Xerox Corporation is making with respect to SCM's motion for a preliminary injunction. Those undertakings are as follows:

1. With respect to the United States, Canada and Latin America, Xerox will not, in any patent infringement action concerning plain paper office copiers that it might commence during the pendency of this action against SCM or any supplier of SCM, seek a preliminary injunction against infringement.

2. With respect to the United States, Canada and Latin America, Xerox will not, during the pendency of this action, commence any patent infringement action concerning plain paper office copiers against SCM or any supplier of SCM without first giving 90 days written notice of Xerox' intention to commence suit to SCM and any other prospective defendant.

3. With respect to the United States, Canada and Latin America, Xerox will not, during the pendency of this action, commence any patent infringement action concerning plain paper office copiers against any end user of such copiers manufactured or sold by SCM.

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Letter Dated March 8, 1974 Containing Xerox's Undertakings Regarding Preliminary Relief

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER

Hon. Jon O. Newman

March 8, 1974

4. With respect to the United States, Canada and Latin America, Xerox will grant to SCM a non-exclusive license to make, use and sell, effective only during the pendency of this action, under any Xerox patent which covers either (1) the Van Dyk plain paper office copier presently being marketed by SCM or (2) the plain paper office copier currently under development by SCM in conjunction with Minolta. The license will bear a non-refundable royalty of 4% of the revenue obtained by SCM as a result of the sale or leasing of such copiers.

5. With respect to countries in which Rank Xerox has pertinent rights, Xerox makes the same undertakings set forth in paragraphs 1-4 above to the extent that Xerox has the legal authority to accomplish them.

6. With respect to the matter of post-employment covenants not to enter the employ of competitors of Xerox, Xerox reaffirms that there are no such covenants presently in effect and undertakes not to enter into any such covenant with any employee during the pendency of this action. (In light of the question raised by counsel for SCM in this regard, the memorandum attached hereto sets forth the salient facts.)

As Your Honor will note, with the exception of paragraph 4 (and so much of paragraph 5 as incorporates the terms of paragraph 4), each of the above undertakings is unilateral and is not dependent upon any reciprocal undertakings or agreements by SCM.

Respectfully submitted,

Stanley D. Robinson

SDR:dv
Encl.

cc: Stephen R. Kaye, Esq.
Jerome Gotkin, Esq.
Ira Grudberg, Esq.
Martin E. Goldstein, Esq.

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Letter Dated March 8, 1974 Containing Xerox's Undertakings Regarding Preliminary Relief

KAYE, SCHOLER, FIERMAN, HAYS & HANDLER

Memorandum Re:

Post-Employment Covenants Not To Compete

From 1960 through April, 1970, Xerox' Employee ...tent and Confidential Information Agreement contained a ...vision prohibiting the employee from engaging in xerog...phy, serving or advising in xerography or being employed ... xerography for two years following the termination of his ...loyment with Xerox. The full text of this provision in ... form of agreement utilized from mid-1966 (SA 282, pro...ded to the Court by SCM counsel on March 6, 1974) read follows:

> "For the period of two years following termination of such employment for any reason, I will not independently engage in xerography or, directly or indirectly, serve or advise in xerography or be employed in xerography by any individual, firm or corporation."

On April 1, 1970, C. Peter McColough, Xerox' Presi..., issued a Statement of Corporate Policy on Business ..., Outside Interests, and Protection of Intangible ...ate Property (attached hereto as Exhibit A), together ... new form of Employee Proprietary Information and ...ict of Interest Agreement. Mr. McColough also directed ...orandum (Exhibit B) to senior executives requesting ...dients "to insure that all of your exempt people ...eive this statement [Exhibit A] and that they sign and ...turn" the new agreement. That new agreement did not contain ...y post-employment covenant not to compete.

Accordingly, since April, 1970, the previous covenant, having been abandoned by Xerox, has not been in effect. Nevertheless, since not every employee actually executed the new agreement, the old agreement [SA 282] was still outstanding as to certain employees, except for the post-employment covenant which had been unilaterally abrogated by Xerox.

Xerox' Proprietary Information and Conflict of Interest Agreement was liberalized again in October, 1973, when Mr. McColough directed a memorandum (Exhibit C) to every Xerox employee, together with a new form of agreement (Exhibit D). Mr. McColough's memorandum explicitly confirmed what had been true since April, 1970: That the prior restrictive covenant was not in effect:

> "Those of you who already have signed will note that the agreement here is less restrictive than the one you signed. The new -- and more liberal -- provisions will apply automatically to you. You do not have to sign again."

It is thus indisputable that as of the present date, there are no agreements between Xerox and any employee restricting the employee, after termination of his employment, from engaging in competition with Xerox.

Letter Dated March 8, 1974 Containing Xerox's Undertakings Regarding Preliminary Relief

EXHIBIT A

XEROX

April 1, 1970

Statement of Corporate Policy on
Business Ethics, Outside Interests, and
Protection of Intangible Corporate Property

Xerox has always conducted its business in line with the spirit, as well as the letter of the law. It believes in and adheres to the highest standards of ethical conduct. Accompanying its business objectives has been the desire to contribute to society as a whole. In furtherance of this goal, the Corporation has encouraged its employees to participate in outside activities -- charitable civic, and those which could be expected to broaden an employee's ability and perspective. This continues to be our philosophy. At the same time, it is obviously necessary that such outside activities be undertaken in a manner which is consistent with the highest ethical standards, the employee's responsibilities to the Company, and the protection of the Corporation's trade secrets and proprietary information.

This statement is to set forth the policies which are to govern every employee of the Corporation and its subsidiaries in the performance of his duties on behalf of the Company and his involvement in outside activities.

Contacts on behalf of the Corporation -- Each employee of the Corporation, in his dealing with contractors, carriers, suppliers, consultants, customers and other persons doing business with the Company, shall conduct his activities in the best interests of Xerox without favor or preference.

Gifts -- Gifts, payments, special considerations or discounts to or entertainment of an employee or a member of his family which go beyond common courtesies usually associated with accepted business practice shall not be accepted from any supplier or customer of the Company.

Financial Interests -- Neither an employee nor a member of his "immediate family" shall have a "significant" financial interest in a Company with which he has dealings in the discharge of his duties for Xerox or in a Company which is a competitor of Xerox. Members of the employee's "immediate family" include his spouse, minor children and any other relative sharing the same home with him. A "significant" interest is one which is so substantial as to interfere with the employee's independent exercise of his judgment in the best interest of Xerox.

Letter Dated March 8, 1974 Containing Xerox's Undertakings Regarding Preliminary Relief

Xerox Securities -- An employee and members of his "immediate family" (as defined above) are expected to purchase Xerox securities only for investment purposes. Purchase for "investment purposes" is intended by Xerox to mean a purchase with intent to hold the securities, without selling them, for an indeterminate period. Speculative trading for quick-turn profit is to be avoided, as is "short" selling.

"Insider" Information -- An employee who gains knowledge, either within or outside the scope of employment, about Xerox or its plans, may not take advantage of such information for his own personal gain or for the benefit of members of his "immediate family"; nor may he disclose such information to anyone, except as required by his employment.

Inventions and Trade Secrets -- Some of Xerox' most valuable assets are the inventions and discoveries made by its employees and the trade secrets developed by them in the course of their employment. These inventions, discoveries and trade secrets are the property of the Corporation. No employee shall disclose them to third parties without prior approval.

Outside Business Interests -- An Outside Business Interest is one in which an employee is involved in a "for profit" business as a director, officer, "promoter" or consultant. A "promoter" is one who in connection with the founding of a business makes an investment in the business in cash, services or property having an aggregate fair market value of $25,000 or more. An employee should consider undertaking an outside business interest only after he has satisfied himself that:

1. The other business' operations, including its research activities, are not in competition with any present or prospective activities of Xerox, its subsidiaries or affiliates.

2. There is no purchase by Xerox or its subsidiaries of the products of the other business (although the other business may use Xerox equipment).

3. The employee's activities on behalf of the other business do not conflict with his obligations to Xerox or involve unreasonable demands on his time that will prevent his full attention to his Xerox job responsibilities.

4. The other business clearly is operated in such a manner that his involvement will in no way adversely reflect upon Xerox.

Letter Dated March 8, 1974 Containing Xerox's Undertakings Regarding Preliminary Relief

If in his judgment the contemplated Outside Business Interest does not present problems in any of these respects, he then, through channels, should request corporate approval to undertake the contemplated involvement in the Outside Business Interest. In the event approval is given, and the employee becomes involved, he will have a continuing responsibility for insuring that no conflict of interest develops. If one should develop he, of course, will be expected to terminate his involvement immediately upon discovery of the conflict of interest.

To insure that every employee of the Corporation and its subsidiaries is fully cognizant of his responsibilities in these areas and that we are apprised of his existing involvement in outside activities, we are asking each employee to sign the recently updated "Proprietary Information and Conflict of Interest" agreement form which is attached and return it to his manager for transmittal to the region or department personnel office. The Employment Section will require new employees to sign the form prior to employment.

(i) Any prior agreements relating to patents, trade secrets or proprietary information with Xerox are superseded.

Employee Signature _____

(Sign first name in full)

Date _____

(To be written by employee)

_____

RMATION REQUIRED BY PARAGRAPH (G) AND (H) OF MY EMPLOYEE PROPRIETARY INFORMATION AND LICT OF INTEREST AGREEMENT

ere any items which are exceptions under paragraph (G) (agreements with or obligations to others and patents) and utside interests, possible conflict of interest) of Agreement:

E 766

Letter Dated March 8, 1974 Containing Xerox's Undertakings Regarding Preliminary Relief

EMPLOYEE PROPRIETARY INFORMATION AND CONFLICT OF INTEREST AGREEMENT

In consideration of my employment by Xerox and of the salary or wages paid therefor, I agree:

(a) During the period of such employment, I will not independently engage in the same or [illegible] line of business or research as that carried on by Xerox or, directly or indirectly, serve, advise or be employed by any individual, firm or corporation engaged in the same or similar line of business or research as that carried on by Xerox.

(b) During or subsequent to the period of such employment, I will communicate to Xerox promptly and fully all inventions, discoveries or improvements conceived or reduced to practice by me during the period of my employment (solely or jointly with others), and I will and hereby do assign to Xerox and/or its nominees all my right, title and interest in such inventions, discoveries, or improvements and all my right, title and interest in any patents or patent applications based thereon, and I will assist Xerox and/or its nominees (without charge but at no expense to me) at any time and in any proper way to obtain and maintain for its and/or their own benefit patents for all such inventions, discoveries or improvements anywhere in the world.

(c) Except as my duties during my employment with Xerox may require or as Xerox may otherwise consent in writing, I will not at any time disclose or use, either during or subsequent to my employment, any information, knowledge or data I learn or develop during my employment which is considered proprietary by Xerox or which relates to the trade secrets of Xerox contained in formulas, business processes, methods, machines, manufactures, compositions, inventions, discoveries or otherwise. Neither will I disclose to Xerox or induce Xerox to use any proprietary information or trade secrets of others.

(d) As used herein, "Xerox" shall mean Xerox Corporation and any of its subsidiary corporations existing during my employment and at the time of its termination.

(e) My obligations hereunder may not be changed or modified, released, discharged, abandoned or terminated, in whole or in part except by an instrument in writing signed by an officer or other authorized agent of Xerox,

(f) This agreement shall inure to the benefit of and be binding upon the heirs, personal representatives, successors and assigns of the parties hereto.

(g) Except as set forth below, I have no agreements with, or obligations to, others in conflict with the foregoing and I do not own or have an interest in any patent application or unpatented invention.

(h) 1. Except as set forth below, I am not a promoter, director or officer of or consultant to a business organized for profit nor will I become a promoter, director or officer of or consultant to such a business while employed by Xerox without first obtaining the prior written approval of the President of Xerox or his designee. Should I become a promoter or undertake the directorship of, become an officer of, or a consultant to a business organized for profit upon obtaining such prior written approval, I understand that I have a continuing obligation to advise the President or his designee at such time as any activity of either Xerox or such other business presents me with a conflict of interest as an employee of Xerox.

2. Should any matter or dealings in which I am now or, hereafter, am about to become involved on my own behalf or as an employee of Xerox appear to present a possible conflict of interest under the Corporate policy then in effect, I will promptly disclose the facts to my supervisor so that a determination can be made as to whether a conflict of interest does exist. I will take whatever action is requested of me by Xerox to resolve any conflict which it finds to exist.

E 767

Letter Dated March 8, 1974 Containing Xerox's Undertakings Regarding Preliminary Relief

EXHIBIT B

C/S 4/1

Inter-Office Memorandum

To See Distribution — Date April 1, 1970

From C. P. McColough — Location HR 2

Subject Corporate Policy on Business Ethics, Outside Interests and Protection of Proprietary Information — Organization President's Office

It has been several years since a statement has been issued dealing with the Corporate philosophy on (a) business ethics, (b) the involvement of our employees in outside activities and (c) the protection of the Company's proprietary information. With the growth of the Corporation, many of our people may not be fully aware of our attitudes in these areas. It seems desirable, therefore, to issue a comprehensive statement at this time.

Would you take whatever action is necessary to insure that all of your exempt people receive this statement and that they sign and return a new Employee Proprietary Information and Conflict of Interest Agreement to their personnel representative. A copy of the text of the new Agreement is attached for your information.

Your personnel people will be receiving details concerning the implementation of this program from Paul Putney.

DISTRIBUTION LIST:

J. R. Bejarano
J. B. Flavin
J. H. Glavin
J. E. Goldman
R. A. Hay
R. W. Haigh
S. Kaplan
A. R. McCardell
J. Neustein
D. L. McGurk
R. J. Potter
J. W. Rutledge

E 768

Letter Dated March 8, 1974 Containing Xerox's Undertakings Regarding Preliminary Relief

EXHIBIT C

Xerox Corporation
Stamford, Connecticut 06904

Office of the Chairman

XEROX

To Xerox People:

I urge you to read this booklet carefully -- it may be one of the most important we have ever published. That's because it explains the legal, moral and ethical obligations each of us assumes toward Xerox.

We have long espoused all of the principles set forth here, and we are probably remiss in not having set them out in one place sooner.

You will note that included is a "Conflict of Interest" statement. This is something almost all of our exempt people have had to sign as a condition of employment. But, because non-exempt people and hourly-paid people are no less a part of this institution, we feel they should sign also.

Consequently, if you have not previously signed an agreement, please sign the document in the back pocket of the book and return it to your personnel coordinator. For your records, a copy of the statement is also bound into the book.

Those of you who already have signed will note that the agreement here is less restrictive than the one you signed. The new -- and more liberal -- provisions will apply automatically to you. You do not have to sign again.

Cordially,

C. Peter McColough

E 769

Letter Dated March 8, 1974 Containing Xerox's Undertakings Regarding Preliminary Relief

EXHIBIT D

Proprietary information and conflict of interest agreement.

In consideration of my employment by Xerox and of the compensation received therefor, I agree:

(A) During the period of my employment, I will not independently engage in the same or similar line of business or research as that carried on by Xerox, or directly or indirectly, serve, advise or be employed by any individual, firm or corporation engaged in the same or similar line of business or research as that carried on by Xerox.

(B) 1. During or subsequent to the period of my employment, I will communicate to Xerox promptly and fully all inventions, discoveries or improvements conceived or reduced to practice by me during the period of my employment (alone or jointly with others), and, except as provided in (B) 2., I will and hereby do assign to Xerox and/or its nominees all my right, title and interest in such inventions, discoveries, or improvements and all my right, title and interest in any patents or patent applications based thereon, and I will assist Xerox and/or its nominees (without charge but at no expense to me) at any time and in every proper way to obtain and maintain for its and/or their own benefit patents for all such inventions, discoveries or improvements anywhere in the world.

2. This agreement, however, does not obligate me to assign to Xerox any invention, discovery or improvement which, in the judgment of Xerox, reasonably exercised, does not relate to the business efforts or research and development efforts in which, during the period of my employment, Xerox actually is engaged or reasonably would be expected to become engaged.

(C) Except as my duties during my employment with Xerox may require or as Xerox may otherwise consent in writing, I will not at any time disclose or use, either during or subsequent to my employment, any information, knowledge or data I receive or develop during my employment which is considered proprietary by Xerox or which relates to the trade secrets of Xerox as contained in formulas, business processes, methods, machines, manufactures, compositions, inventions, discoveries or otherwise or which Xerox has received in confidence from others. Neither will I disclose to Xerox or induce Xerox to use any proprietary information or trade secrets of others.

(D) As used herein, "Xerox" shall mean Xerox Corporation and any of its susbsidiary corporations existing during my employment and at the time of its termination.

(E) My obligations hereunder may not be changed or modified, released, discharged, abandoned or terminated, in whole or in part except by an instrument in writing signed by an officer of Xerox.

(F) This agreement shall inure to the benefit of and be binding upon the heirs, personal representatives, successors and assigns of the parties hereto.

(G) Except as set forth below, I have no agreements with, or obligations to, others in conflict with the foregoing and I do not own or have an interest in any patent application or unpatented invention.

(H) 1. Except as set forth below, I am not a promoter, director, employee or officer of or consultant to a business organized for profit, nor will I ever be any promoter, director, employee or officer of or consultant to such a business while employed by Xerox without informing the prior written approval of the Chairman of the Board of Xerox or his designee. Should I be a promoter, director, employee or officer of, or a consultant to a business organized for profit without such prior written approval, I understand that I have a continuing obligation to advise the Chairman of the Board or his designee at such time as any activity of either Xerox or such other business presents me with a conflict of interest as an employee of Xerox.

2. Should any matter or dealings in which I am now involved or hereafter become involved, on my own behalf or as an employee of Xerox, appear to present a possible conflict of interest under the Corporate policy then in effect, I will promptly disclose the facts to my supervisor so that a determination can be made as to whether a conflict of interest does exist. I will take whatever action is requested of me by Xerox to resolve any conflict which it finds to exist.

ONLY COPY AVAILABLE

E 770

Letter Dated March 8, 1974 Containing Xerox's Undertakings Regarding Preliminary Relief

(i) Any prior agreements between us relating to patents, trade secrets, proprietary information or conflict of interest with Xerox are hereby superseded.

Employee Signature _____
(Sign first name in full)

Date _____
(To be written by employee)

Witness _____

INFORMATION REQUIRED BY PARAGRAPHS (G) AND (H) OF MY PROPRIETARY INFORMATION AND CONFLICT OF INTEREST AGREEMENT

List here any items which are exceptions under paragraphs (G) (agreements with or obligations to others and patents) and (H) (outside interests, possible conflict of interest) of Agreement:

E 771

EMPLOYEE PROPRIETARY INFORMATION AND CONFLICT OF INTEREST AGREEMENT

April 1, 1970
to date

XEROX

XEROX

XEROX

NON-TECHNICAL CONFIDENTIAL

EMPLOYEE PROPRIETARY INFORMATION AND CONFLICT OF INTEREST AGREEMENT

In consideration of my employment by Xerox and of the salary or wages paid therefor, I agree:

(A) During the period of such employment, I will not independently engage in the same or similar line of business or research as that carried on by Xerox or, directly or indirectly, serve, advise or be employed by any individual, firm or corporation engaged in the same or similar line of business or research as that carried on by Xerox.

(B) During or subsequent to the period of such employment, I will communicate to Xerox promptly and fully all inventions, discoveries or improvements conceived or reduced to practice by me during the period of my employment (alone or jointly with others), and I will and hereby do assign to Xerox and/or its nominees all my right, title and interest in such inventions, discoveries, or improvements and all my right, title and interest in any patents or patent applications based thereon, and I will assist Xerox and/or its nominees (without charge but at no expense to me) at any time and in every proper way to obtain and maintain for its and/or their own benefit patents for all such inventions, discoveries or improvements anywhere in the world.

(C) Except as my duties during my employment with Xerox may require or as Xerox may otherwise consent in writing, I will not at any time disclose or use, either during or subsequent to my employment, any information, knowledge or data I receive or develop during my employment which is considered proprietary by Xerox or which relates to the trade secrets of Xerox as contained in formulas, business processes, methods, machines, manufactures, compositions, inventions, discoveries or otherwise. Neither will I disclose to Xerox or induce Xerox to use any proprietary information or trade secrets of others.

(D) As used herein, "Xerox" shall mean Xerox Corporation and any of its subsidiary corporations existing during my employment and at the time of its termination.

(E) My obligations hereunder may not be changed or modified, released, discharged, abandoned or terminated, in whole or in part except by an instrument in writing signed by an officer or other authorized agent of Xerox.

(F) This agreement shall inure to the benefit of and be binding upon the heirs, personal representatives, successors and assigns of the parties hereto.

(G) Except as set forth below, I have no agreements with, or obligations to, others in conflict with the foregoing and I do not own or have an interest in any patent application or unpatented invention.

(H) 1. Except as set forth below, I am not a promoter, director or officer of or consultant to a business organized for profit, nor will I become a promoter, director or officer of or consultant to such a business while employed by Xerox without first obtaining the prior written approval of the President of Xerox or his designee. Should I become a promoter or undertake the directorship of, become an officer of, or a consultant to a business organized for profit upon obtaining such prior written approval, I understand that I have a continuing obligation to advise the President or his designee at such time as any activity of either Xerox or such other business presents me with a conflict of interest as an employee of Xerox.

2. Should any matter or dealings in which I am now or, hereafter, am about to become involved on my own behalf or as an employee of Xerox appear to present a possible conflict of interest under the Corporate policy then in effect, I will promptly disclose the facts to my supervisor so that a determination can be made as to whether a conflict of interest does exist. I will take whatever action is requested of me by Xerox to resolve any conflict which it finds to exist.

SA000287

(over)

E 772

Employee Proprietary Information and Conflict of Interest Agreement

XEROX
NON-TECHNICAL CONFIDENTIAL

(I) Any prior agreements relating to patents, trade secrets or proprietary information with Xerox are superseded.

Employee Signature _____

(Sign first name in full)

Date _____

(To be written by employee)

Witness _____

INFORMATION REQUIRED BY PARAGRAPH (G) AND (H) OF MY EMPLOYEE PROPRIETARY INFORMATION AND CONFLICT OF INTEREST AGREEMENT

List here any items which are exceptions under paragraph (G) (agreements with or obligations to others and patents) and (H) (outside interests, possible conflict of interest) of Agreement:

000288

SA

E 773

PRE-TRIAL RULING NO. 8

FILED
U.S. DISTRICT COURT
NEW HAVEN, CONN.

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

SCM CORPORATION	:	
V.	:	CIVIL NO. 15,807
XEROX CORPORATION	:	

PRE-TRIAL RULING NO. 8

Plaintiff has moved for an order of the Court appointing a special master to supervise pre-trial discovery. Fed. R. Civ. P. 53. In support of the application, in which defendant does not join, plaintiff relies on the general considerations suggested in the Manual for Complex Litigation and in Judge Kaufman's article, "Masters in the Federal Courts: Rule 53," 58 Colum. L. Rev. 452 (1958), and also on the particular disputes between the parties that have arisen and threaten to arise with respect to discovery in this case.

The Manual suggests that masters "may be used to advantage" where discovery in the protracted case presents "problems involving exceptional circumstances," though it cautions that even in protracted cases, masters should not be

appointed "automatically." § 3.21. In pointing out the advantages of a special master for discovery in a protracted case, Judge Kaufman cited the situation confronting district judges in metropolitan areas with a large number of "big" cases. Moreover, he specifically cited three instances of a beneficial referral in none of which had the case been assigned to a single judge for all purposes, as has occurred here.

While this case has been and can be expected to be in the future a burdensome task for a district judge, this District is not so beset by "big" cases that reference of discovery to a master needs to be readily contemplated. Moreover, there is also pending before me a somewhat similar group of cases, involving the same defendant as in this case and various Litton parties, and raising many of the same issues. Civil Nos. 15,136, 15,137, 15,705. With no request for reference of discovery to a master in those cases, reference in this case would create the possibility of uneven handling of both the Litton and SCM litigation.

The Court is not insensitive to the plaintiff's concern for expeditious resolution of disputes that may arise between the parties concerning discovery. Toward that end the Court has been available for several chambers conferences

and has ruled on a series of pre-trial motions. I continue to believe that many of the disputes that may arise in the course of discovery can best be handled by cooperation between the able and experienced counsel representing both sides. Nevertheless, some matters will require judicial resolution, and the Court is not at all reluctant to adjudicate those matters that remain for decision after good faith attempts by counsel to resolve them. To facilitate both the informal and formal resolution of discovery disputes, the Court remains available, upon request of either side, to schedule promptly chambers conferences. While access to the Court at New Haven is perhaps not as convenient for counsel as a special master in New York City, it was the decision of plaintiff to bring this action in the District of Connecticut. Moreover, in addition to the lead counsel from New York, both sides are well represented by able and experienced Connecticut counsel, who can be relied upon to present effectively the parties' contentions with respect to most, if not all, the discovery disputes.

In light of these considerations, the motion for reference of discovery to a special master is denied, without

prejudice to renewal at a later time should circumstances warrant.

Dated at New Haven, Connecticut, this 12 day of June, 1974.

Jon O. Newman
United States District Judge

EXHIBITS TO MEMORANDUM IN SUPPORT OF
SCM's RULE 42(b) MOTION

EXHIBIT 1

E 777

Exhibits to Memorandum in Support of Plaintiff's Rule 42(b) Motion

JOINT POSITION

OF

CONTROL DATA CORPORATION

HONEYWELL

THE NATIONAL CASH REGISTER COMPANY

SPERRY RAND CORPORATION

RE

RELIEF MATTERS IN U. S. v. IBM

JOINT POSITION

OF

CONTROL DATA CORPORATION
HONEYWELL
THE NATIONAL CASH REGISTER COMPANY
SPERRY RAND CORPORATION

RE

RELIEF MATTERS IN U. S. v. IBM

The following positions, each of which will be briefly elaborated on in the following pages, are held in common by these four companies:

1. *Early* relief is indispensable to insure a possibility of the restoration of competition. This requires the immediate formulation of a comprehensive plan for *interim* relief. Although emphasis should be on *post*-trial interim relief, *i.e.*, relief to take effect soon after violation has been found and to terminate upon the effective date of the ultimate relief, a *pre*-trial injunction might be warranted under certain circumstances, provided that the preparation for and the hearing on a motion for such relief would not impede the forward progress of trial preparation and delay the commencement of trial.

2. The post-trial interim relief plan should include "structural", as well as behavioral, provisions designed to safeguard the industry during the extensive period of appeals and during the process of formulating the ultimate relief.

3. To the end that interim relief should take effect as soon as possible, the Antitrust Division should make an effort to obtain a court order separating the issue of violation from the issue of ultimate relief.

4. The Antitrust Division's position as regards the complex question of ultimate relief should not be finally resolved until the point in time when the imposition of such relief is fairly close and the industry and other relevant facts which then exist are known. We collectively reiterate the positions already individually recited by each of our four companies that, under the present circumstances, it is our judgment that the divestiture proposed in the October, 1972 relief memorandum filed with the Court by the Antitrust Division would not restore competition to the industry and achieve the objectives of the Sherman Act. However, we do believe that consideration must necessarily be given to divestiture of a type which is appropriate under the circumstances at the time and to divestiture, and other relief, on a world-wide basis.

I. An Effective Interim Relief Plan Is Necessary and Feasible

The need for early, interim relief can be understood only in light of the probable time of commencement of ultimate relief measures and the likelihood of significant changes in the industry before ultimate relief becomes effective. For present purposes, we assume that the trial will start sometime in 1974 and last for approximately one year. Because of the complexities involved in the litigation and the obvious volume of the trial record, the appellate process will probably take years, and the possibility of more than one appeal cannot be discounted.* The ultimate relief-formulation process will also be extremely time-consuming, because of the likelihood that relief will be proposed and presented by numerous interested groups and individuals, inside and outside government. In view of the importance of the issue, the District Court will be inclined to seriously consider the pros and cons of all such proposals before entering its final judgment incorporating the ultimate relief plan.

All of this means that ultimate relief probably cannot become fully effective in this decade. But if IBM's dominance remains unchecked until the 1980's, the computer industry may suffer an irretrievable setback. Without delving into the cause and effect relationship between IBM's dominance and the departures, including those of GE and RCA, from the computer industry, the fact remains that the number of IBM mainframe competitors is now down to only a handful. Their continued viability through the critical years comprising the second half of this decade must not be impaired.

An effective interim relief plan could provide assurance in this respect. The underlying assumption of this Memorandum is that the government will establish a monopolization violation at the trial, and a monopolization finding necessarily means that the District Court will have found that IBM has the power to exclude competitors from the market. In light of such an adjudication, and in light of the obvious difficulty and time-consuming nature of resolving the ultimate relief problem, the undersigned companies feel that the Antitrust Division might well persuade the District Court, without the need for extensive hearings, to enter an order calling for effective interim relief. The necessity for such interim relief measures was recognized by the Supreme Court in one of the earliest Sherman Act cases:

> "(The relief) subject necessarily takes a two-fold aspect, — the character of the permanent relief required, and the nature of the temporary relief essential to be applied pending the working out of permanent

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*This process may be even lengthier if the Expediting Act is amended so as to provide for appeals in government injunction cases to the Courts of Appeal.

> relief in the event that it be found that it is impossible, under the situation as it now exists, to at once rectify such existing wrongful condition . . . Pending the bringing about of the result just stated, each and all of the defendants, individuals as well as corporations, should be restrained from doing any act which might further extend or enlarge the power of the combination, by any means or device whatsoever." *U. S. v. American Tobacco Co.*, 221 U. S. 106, 31 S. Ct. 632, 650, 651 (1911).

II. The Interim Relief Plan Should Include Structural Provisions

The need for post-trial interim relief has been expressly recognized by the Antitrust Division in its October, 1972 preliminary memorandum on relief. But the undersigned companies entertain serious doubts as to whether the combination of the "anti-scrambling" provisions of section II of that memorandum, and the behavioral injunctions of section III, are sufficient in scope to accomplish the objective of not permitting the situation in the industry to worsen during the immediate post-trial years. It must be recognized that, if and when IBM has been adjudicated to be a monopolist — at which point IBM would be confronted with the possibility of dismemberment, as outlined in the Department's October, 1972 memorandum — IBM's management would have every incentive, as well as the capability, to substantially increase its market share, so as to be able to "bequeath" such additional business to the IBM successor companies. Any such increased pre-divestiture dominance would of course benefit the IBM "Newcos", but the corresponding loss of market share by current IBM competitors might prove disastrous for one or more of them.

We see no effective way to preclude that eventuality, short of the "controlled growth" approach suggested here. In essence, the proposed controlled growth remedy would prevent IBM from increasing its market share. This prohibition against excessive growth would apply to identifiable segments of the computer market, and also to the computer-related markets which likewise would be vulnerable to an IBM take-over during the post-adjudication period. Some of the details of the controlled growth remedy, together with an outline of the other features of the proposed interim relief plan (*i.e.*, behavioral injunctions and provisions assuring access to IBM products and technology), are set forth in Appendix A to this Memorandum.*

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*Similar behavioral injunctions against IBM may be in effect at the time of adjudication. In *Telex v. IBM*, the District Court in September, 1973 granted injunctions embracing some portions of Interim Relief Measures Nos. 1, 2 and 6 of Appendix A.

We have characterized the controlled growth remedy as "structural" because it directly addresses the central issue of preservation of competition and is unrelated to behavioral practices. But the proposal is designed to *preserve* the current market structure, not to alter it, and thus is consonant with the interim relief concept of maintenance of status quo. We are aware of the fact that remedies imposed on an interim relief basis must be reversible because of the possibility that the adjudication of the trial court might not be affirmed. Neither the controlled growth remedy nor the other suggested measures fall into the irreversible category. Rather, they are designed to preserve the current market structure and thus obviate the possibility that the entire objective of the government's case — the infusion of competition into the computer industry — will be frustrated before final relief is entered.

III. The Violation Issue Should Be Separated From The Ultimate Relief Issue

The Department should take whatever steps are necessary to obtain an adjudication against IBM as soon as feasible, which adjudication will permit the imposition of effective, and early, interim relief. A separation of the two principal trial issues will assist in meeting that objective in two ways. First, if the parties are freed at this time from the burden of preparing the evidence and arguments in support of their respective positions on ultimate relief, the trial-commencement date can be accelerated; and second, the duration of an initial trial limited to the violation issue would be substantially shorter than a single trial of the combined issues, thus allowing the entry of the trial court's findings as to the monopolization issue at a much earlier date than otherwise.

We realize that to accomplish such a separation is not within the government's discretion but rather that of the District Court. And we assume that IBM, desiring to delay the day of adjudication as long as possible, would resist a government motion for a separate trial. Still, an issue-separation approach of this kind is not uncommon in government antitrust cases, and we would urge the Antitrust Division to seek such a separation in view of the following resultant advantages that are in addition to the interim relief objective mentioned above:

1. If the violation issue is dispositive in favor of IBM, many months of the Court's time and of the Division's efforts will be saved.

2. If violation is found (and that is the assumption underlying this Memorandum), the District Court can then address the ultimate

relief problem in light of the understanding of the complex industry which will have been gained in the process of hearing the evidence on the violation issue and formulating its findings.

3. Against the background of such an understanding of the industry, the relief issue can be addressed in light of the then current facts and trends in the industry, national and international economic considerations, etc.

4. No duplication of evidence would be involved. Certain key witnesses would have to appear a second time, but their testimony would be more meaningful if given after the Court's findings on the monopolization issue. For example, in an undivided trial context, testimony on the central issue of what is needed to dissipate IBM's market power has to be given on the basis of *assumptions* as to the nature and scope of that power, while in a separated trial context, such testimony would be given in light of the District Court's extensive findings on the market definition and market power issues.

5. The suggested separation of issues does not necessarily affect the question of whether one or two appeals will be taken. Depending on the definition of the issues to be separated, the Court can infuse in, or withhold from, its initial findings the requisite "finality" determinative of IBM's right to appeal at that point. But in either event, interim relief measures could take effect shortly after (if not before) such initial findings and remain in effect at least until the entry of the final judgment setting forth all of the details of the ultimate relief package.

IV. The Resolution Of The Ultimate Relief Question Should Be Deferred

The government's tentative proposal for ultimate relief, as we understand it, contemplates the division of IBM into "several" (presumably 5 to 8) balanced mainframe manufacturers which offer a relatively full line of computer systems. In our view, that plan is fraught with substantial risks and difficulties. Assuming that the feasibility problems involving plant-splitting and the use of foreign-located assets can be overcome, the risk of economic waste by way of transitional costs and the risk of creating a shared monopoly remain.

Substantial transitional costs are necessarily involved. Among the more obvious are the economic wastes inherent in dividing basic research and developmental work in progress, transferring production, and allocating successor responsibilities regarding support of IBM equipment in the field.

Another aspect of the transitional costs of the dismemberment plan proposed in the Antitrust Division's October, 1972 relief memorandum would be the slow-up in the market as users hold up their procurement decisions

until there is less uncertainty as to the new structure of the industry. Such a slow-up, aggravated by the continuing IBM de facto standards, would probably involve a freeze on technological progress to the detriment of computer users, and hence the public. It is likely to adversely affect all of the firms in the industry, and especially the non-IBM companies because they lack the cash flow from an extensive lease base to sustain them during the transitional years.

More importantly, the final outcome of the dismemberment plan in the Antitrust Division's October, 1972 relief memorandum is likely to leave the IBM successor companies as dominant firms. Depending in part on the efficacy of interim relief, the successor companies will be substantially larger than the non-IBM mainframe companies and will have the further advantage, which could prove decisive, of a very sizeable lease base coupled with a compatible product line among themselves. With a head start from size and lease base, and sheltered by systems/data base compatibility barriers and the other aspects of the "technological lock-in",* the successor IBM companies might well succeed not only to the assets of IBM but also to its predominance in the industry. This would not only fail to return true differentiated competition to the market place, but rather would set apart one group of competitors with significant advantages over other competitors.

Converting single-firm dominance to shared monopoly power is not, in our view, of sufficient public benefit to offset the substantial transitional costs of dismemberment and the risk that users will lose the innovative, product differentiation and other competitive benefits now being provided by the non-IBM mainframe companies.

While the undersigned companies have these very real concerns over the efficacy and feasibility of the dismemberment plan in the Antitrust Division's October, 1972 relief memorandum, the position of these four companies is that the merits of *any* ultimate relief plan, be it the Antitrust

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*"Technological lock-in" arises from the close inter-relationships of hardware and software in a complex computer system and the close integration of the computer system with most users' operations. By making a change in suppliers uneconomical, this distinctive phenomenon of the computer industry ties customers to suppliers and lends itself to manipulation to maintain monopoly power by a dominant firm. The importance of the concept lies in the doubt that it casts on the efficacy of the plan in the Antitrust Division's October, 1972 relief memorandum as a means to dissipate monopoly power. In most industries, such dismemberment would "automatically" accomplish a dissipation of power, but the peculiarities of the computer industry present a special set of problems.

Division's or those of any of the four companies, cannot now be adequately evaluated.* Under the best of circumstances, the effective date of the measures imposed by way of ultimate relief is many years away, and during the intervening years the facts and circumstances which should dictate the type of ultimate relief that is both feasible and efficacious, *i.e.*, the industry structure and composition, the state of the technology, user needs, the position of the United States relative to other countries (including balance of payments and balance of trade considerations), and other domestic and international economic factors, may drastically change. It is for these reasons that we feel that the government should not attempt at this time to fix on a definite plan for ultimate relief, but rather defer the formulation of its final relief plan to a point in time when the controlling considerations are known or at least can be evaluated with much less uncertainty.

In spite of such difficulties in predicting future events, these four companies expect that consideration will have to be given to divestiture of some type and to divestiture and other relief being implemented on a world-wide basis.

V. Conclusion

It is the considered request of the parties to this Memorandum that the Department of Justice give due consideration to the collective positions expressed herein. We believe that the views of these companies deserve substantial weight because they represent computer-dedicated assets producing annual revenues of over $2,500,000,000. These four companies employ over 300,000 people, almost half of them directly involved in computer efforts; these companies are owned by over one quarter of a million shareholders. These companies are significant suppliers to the U. S. government and are major exporters. These companies are also the source of significant innovation in all facets of computer technology. With so much at stake, these companies are vitally interested in the efficacy and consequences of the relief to be sought against IBM.

It is obviously in the self-interest of these companies to remain viable and to grow in strength, but inasmuch as these four corporations represent a significant share of what remains of the non-IBM segment of the computer-manufacturing industry, the increased vitality of these companies is also of paramount importance to the public interest.

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*The Antitrust Division stated a somewhat similar position in its October, 1972 relief memorandum when it suggested (pp. 2-3) that the principal effort should be directed to " . . . achieving a fully developed record upon which to evaluate the future efficacy of this or other forms of relief."

Representatives of each of the companies stand ready to elaborate on the positions stated in this Memorandum and to work with the Antitrust Division staff in an effort to solve the complexities inherent in the ultimate relief question and to effectively address the issues involved in the interim relief concept proposed in this Memorandum.

Respectfully submitted,

Control Data Corporation
Honeywell
The National Cash Register Company
Sperry Rand Corporation

October, 1973

APPENDIX A
TO
OCTOBER, 1973 RELIEF POSITION PAPER OF
CDC, HONEYWELL, NCR AND SPERRY RAND

PROPOSED INTERIM RELIEF IN U.S. v. IBM

The following eight relief measures (including the three injunctions proposed by the Antitrust Division) are expressed only as general concepts. They are intended to be applicable world-wide.

I. The Government's Suggested Injunctions

The Antitrust Division's October, 1972 relief memorandum set forth interim relief recommendations to which we subscribe. In addition to the standard anti-scrambling provisions of section II of that memorandum, the government suggested the following injunctive provisions:

Interim Relief Measure No. 1: IBM shall not use bundled pricing.

Interim Relief Measure No. 2: IBM shall not engage in predatory or discriminatory pricing.

Interim Relief Measure No. 3: IBM shall not make premature announcements of its computer products.

Comment: These three remedies are noncontroversial, minimal provisions necessary to preclude IBM from direct, anti-competitive behavior during the interim period.

II. Remedies Providing Access to IBM's Patents, Know-How, Software, Product Specifications and Unique Products

The following injunctive provisions would provide rights to license IBM's patents, software and other know-how, to have disclosure of its product specifications and to buy its unique products on an OEM basis, all of which rights could, but would not necessarily, be extended indefinitely as part of the final relief.

Interim Relief Measure No. 4: IBM shall not refuse to license its EDP patents and EDP know-how, patentable and unpatentable alike (and, where it has the right to do so, sublicense its rights under the EDP patents and know-how of others) to all applicants on a reasonable-royalty, non-discriminatory basis. IBM shall afford such applicants reasonable assistance in understanding and utilizing such rights and

information through plant visitation opportunities and other methods, the expense of which may be charged applicants on a reasonable, non-discriminatory basis, not to include the original cost of producing the know-how.

Comment: This provision would preclude IBM from using its strong patent and technical position to injure competition.

Interim Relief Measure No. 5: IBM shall not refuse to license, with the right to sublicense, its software products, including applications programs, to all applicants on a reasonable-royalty, non-discriminatory basis.

Comment: This provision would prevent IBM from using its dominant position in software to inhibit sales by competitors and to interpose itself between its competitors and their customers.

Interim Relief Measure No. 6: IBM shall disclose to other suppliers of EDP products having a legitimate interest in such disclosure, the complete product specifications of its EDP hardware, software and media products, including functional, interface, media and performance specifications, and also the applicable communications procedures, at the time of product announcement, or 24 months before the reasonably anticipated delivery date, whichever is earlier.

Comment: This provision would ameliorate the competitive advantage that IBM has by virtue of its control of *de facto* standards.

Interim Relief Measure No. 7: IBM shall not refuse to sell to original equipment manufacturers any EDP product, a substitute for which is not reasonably available elsewhere, to be incorporated in EDP systems produced by such manufacturers, at prices and with delivery commitments which enable them to effectively compete.

Comment: This provision is designed to eliminate the possibility that IBM could use a monopoly position in a new EDP product to hamper the competitors' sales of systems which depend to a material extent on such new product.

III. The Controlled Growth Remedy

The objective of this remedy is to preserve the *status quo* regarding IBM's market share pending the effective date of final relief.

Interim Relief Measure No. 8: IBM shall be subject to suitable measures to limit its growth to that of the market(s), or, preferably, less. Such measures should be based on data readily available to the Court.

The markets to which this interim relief measure should be applicable would be selected in light of the District Court's findings (before or after trial) as to the market definition and the scope of IBM's monopoly power. However, the markets to which this remedy would apply would not be confined to those found by the Court to have been monopolized by IBM. Rather, the remedy would be extended to the additional EDP submarkets which would require the protection afforded by this remedy, and also to the related markets for EDP products and services (such as communications, terminals and professional services) which are most likely to be the target of future domination by IBM.

IBM should be required to give priority to its then existing customers so as to diminish the number of new customers potentially "locked-in" to IBM equipment and thus "preserved" for the IBM successor companies.

Comment: As stated in the accompanying Memorandum, the philosophy behind this remedy is that it is the only sure way of preventing a complete domination of the industry by IBM during the period prior to final relief. The remedy would be applicable to the market(s) found to have been monopolized by the District Court, and also to the related product and service market(s) and submarket(s) which would be particularly vulnerable to an IBM takeover if its expansion in principal market(s) were limited during the interim period.

EXHIBIT 2

TO J. C. Wilson

DATE April 22, 1964

FILE IBM

FROM John Dessauer

LOCATION Webster 65

CROSS REF.

SUBJECT IBM

ORGANIZATION R&E Admin.

PERSONAL AND CONFIDENTIAL

I was very much intrigued by Sol's letter of April 13 telling about discussions with Mr. Birkenstock.

Sol's office only recently surveyed the total scope of IBM's present license to xerography. According to this analysis, IBM already has a very broad license to many more applications of xerography than I wish they had. This leaves me wondering why they want more and what it could be that they wish to pursue. It seems as if their interest is focusing on copying, duplicating and microfilm-type card enlargements.

I am left with a funny feeling that the approach by Birkenstock was, in a sense, an attempt to scare us.

It seems to me that we should not give in to IBM, even if circumstances should arise in the future which would make it advisable to broaden our license scope. I hope that we will be allowed to be choosey about what we license, and perhaps also whom we license. I can think of a lot of companies to license long before we would pick IBM, our most formidable future competitor.

I am sure you noticed the implied compliment to our company. IBM, in fact, says that we are still in possession of the best approach and that they know of none to replace it at the present time.

JD:hh

xc: C. P. McColough
S. M. Linowitz

John Dessauer

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EXHIBIT 3

CORPORATION XEROX

TO J. C. Wilson

FROM C. Peter McColough

SUBJECT SCM

November 12, 19

LOCATION

ORGANIZATION

I read with interest your memo of November 1st regarding your discussions with Bud Mead.

Very frankly, I see no possible reason why we should consider giving them a license in selenium xerography for the production of equipment similar to our 914 and 813 copiers. I think tactically that it was both wise and the only proper course of action to follow to tell Mead that this would be given serious consideration. On the other hand, as far as we ourselves are concerned, I can think of no reason why it makes sense to entertain such a thought seriously.

CPM

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CPMcColough/mjj

cc: J. H. Dessauer
S. M. Linowitz
F. A. Steinhilper

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NOV 13 1953
PATENT DEPARTMENT

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EXHIBIT 4

XEROX CORPORATION

INTER-OFFICE MEMORANDUM

TO S. M. Linowitz DATE November 5, 1963

FROM J. C. Wilson LOCATION

SUBJECT SMITH CORONA MARCHANT ORGANIZATION

I reached Bud Mead of SCM and told him that after our conversations following my return from New York, I wished to reiterate our position - namely, that requests for a license on the territory involving the 914 and 813 would require a great deal of study over a long period of time. I promised him that it would receive serious consideration.

I repeated, however, that we wish to move ahead promptly on the license for the machines and products which they were currently offering. I told him that language was being prepared here to be submitted to them for their consideration. He said that he and his people would consider it promptly.

I so reported to Frank and urged that it be moved forward as quickly as he could conveniently.

JCW
jeg
xc:
FASteinhilper
JHDessauer
JHGlavin
CPMcColough

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PATENT DEPARTMENT

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EXHIBIT 5

XEROX Inter-Office Memorandum CONFIDENTIAL

To J. C. Wilson

Date April 3, 1963

From A. H. Swett

Location Midtown 7

Subject SCM

Organization General Counsel

SCM's patent counsel has made his annual inquiry as to our willingness to license in selenium xerography; and Stan Cole has given the usual answer. You will be interested to know that they have not forgotten it, however.

The information in the last paragraph is, of course, not new.

AHS:am
Encl.
xc: C.P.McCollough
R.A.Hay
P.M.Wilson

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EXHIBIT 6

Exhibits to Memorandum in Support of Plaintiff's Rule 42(b) Motion

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

XEROX CORPORATION Plaintiff	:	
v	:	Civil Action No. 67 3392
DENNISON MANUFACTURING CO. ET AL Defendants	:	

DEFENDANTS' ANSWER AND COUNTERCLAIMS

Now come the Defendants and answer Plaintiff's Complaint herein as follows:

1. Defendants admit the allegations set forth in paragraphs numbered 1, 2, 3 and 4 thereof.

2. To Paragraph No. 5, Defendants admit the issuance on March 11, 1952 of United States Patent No. 2,588,699 but deny that said patent was duly and legally issued.

3. To Paragraph No. 6, Defendants admit the issuance on February 11, 1964 of United States Patent No. 3,121,006 but deny that said patent was duly and legally issued.

4. To Paragraph No. 7, each Defendant admits its

having a regular and established place of business in the Southern District of New York but denies each and all the other averments of said paragraph.

5. Further answering, Defendants aver that both said patents in suit are directed to electrostatic photocopying, respecting which past commercial activities in the United States have been confined substantially to two widely differing categories,

(a) The first and earlier one having been developed and substantially exclusively used by Plaintiff, in which the printing may be and usually is upon any ordinary paper, indirectly, from the electrostatically charged surface of a drum, surface-coated with selenium,

(b) In contrast to the second category, hereinafter sometimes designated as Electrofax, which was developed and patented by Radio Corporation of America (hereinafter RCA), in which the visible image is printed directly upon the electrostatically charged surface of a photocopy paper, surface-coated with non-phosphor, pigment grade zinc oxide in an insulating organic resin binder,

to which second category, under license from RCA, Defendants' herein accused activities have been confined.

6. Further answering, Defendants aver that Plaintiff has sought and secured many United States patents relating to electrostatic photocopying, among which are said two patents in suit, of which No. 2,588,699 is directed to apparatus allegedly

useful in the electrostatic charging step in the process to which No. 3,121,006 is directed.

Patent No. 3,121,006

7. Defendants further aver that claims 1 and 14 of the 3,121,006 patent in suit are directed to a process of electrostatic photocopying, and claim the use in a number of critical materials defined in part as:

> ". . . finely divided particles of an inorganic photoconductive insulating metallic-ions containing crystalline compound. . . "

which materials are asserted by Plaintiff to include the pigment grade zinc oxide as used by Defendants.

This patent was applied for by one Arthur E. Middleton and one Donald C. Reynolds as joint inventors, and states first full paragraph, column 17, that the application therefor, which was Serial No. 668,165, filed June 26, 1957, "is a continuation in part of our earlier filed copending application Serial No. 311,546, filed on September 25, 1952,"

which 1952 application was stated by the applicants in the same paragraph, to have been "a continuation in part of Serial No. 95,374, filed May 25, 1949 by Arthur E. Middleton, now U. S. Patent 2,663,636."

8. Said two predecessor applications neither disclosed non-phosphor pigment grade zinc oxide nor contained sub-

stantive continuity on critical issues to said 1957 application, in that:

(a) Said 1949 application Serial No. 95,374 disclosed no

> ". . . inorganic photoconductive insulating metallic-ions containing crystalline compound. . . "

claimed in Patent No. 3,121,006 except zinc titanate which was never mentioned in said 1952 application Serial No. 311,546, wherefore the only such "compound" disclosed in both the 1949 and 1957 applications was neither disclosed nor claimed in the intervening 1952 application;

(b) Said 1952 predecessor application Serial No. 311,546, as filed and sworn to by its said applicants,

(i) Emphasized the efficacy of the phosphor category of the inorganic metallic-ions containing compounds therein disclosed,

(ii) Included in its general disclosure no mention whatsoever of any oxide, and in the three examples therein set forth, no mention of any oxide except phosphor zinc oxide and phosphor zinc magnesium oxide,

(iii) Contained in each of its originally filed ten claims, which were the only claims ever sworn to by the applicants as having been invented by them, a limitation of the claimed compounds to the "class

consisting of the sulfides and selenides of cadmium and zinc," and

(iv) Never contained a sworn-to claim directed either to an oxide or to a class containing an oxide.

9. Further answering, Defendants aver that following the filing of said 1952 application, on September 25, 1952, and

before Middleton and Reynolds; the applicants therefor, or any of the executives or employees of Plaintiff had knowledge of the efficacy of pigment grade zinc oxide in electrostatic photocopying,

several executive officers of Plaintiff [illegible] had had demonstrated to them by RCA's personnel the successful performance of RCA's said Electrofax process using pigment grade zinc oxide in a binder,

the first demonstration having been made in December of 1952 with a repeat demonstration in July, 1953 at the request of Plaintiff's executives for their further instruction.

10. Following the foregoing demonstrations, amendments and arguments in said 1952 application Serial No. 311,546 were filed in the Patent Office by or upon the instigation of Plaintiff all without disclosure to the Patent Office of applicants' derivation from RCA of their knowledge of pigment zinc oxide efficacy as aforesaid, and without supporting oath by said applicants,

(a) Presenting new claims on November 6, 1953, which included among others,

application claim No. 17 claiming in substance the successful use in electrostatic photocopying of zinc oxide in a binder, without qualification of whether the zinc oxide was phosphor or pigment grade, or otherwise,

notwithstanding that the zinc oxide disclosure of the application was specifically limited to phosphor zinc oxide,

(b) Presenting a second amendment filed on March 14, 1955, whereby

(i) All pending claims in said application except No. 16 through 20 were specifically limited to phosphors, and

(ii) Said application claim 17 became by election, the only claim to a non-phosphor which could be actively prosecuted in the application,

(c) Urging the allowance of said claim 17 throughout a period in excess of the twenty-seven months commencing March 14, 1955, during which claim 17 was the only claim under active prosecution covering a non-phosphor, without contesting priority when rejected on alleged prior Electrofax invention by RCA, and

ultimately cancelling said claim 17 on June 26, 1957 contemporaneously with the filing of the 1957 application Serial No. 668,165 in which no corresponding claim was presented.

11. Respecting said 1957 application Serial No. 668,165, which matured to Patent No. 3,121,006 in suit, Defendants further aver that by or at the instigation of Plaintiff:

(a) Its application claim 1 was drafted, presented and prosecuted through to grant as patent claim 1 directed to class coverage which is now asserted by Plaintiff to cover the use of pigment grade zinc oxide;

(b) The disclosure of said application was greatly changed from that of the predecessor 1952 application Serial No. 311,546, by both additions and deletions, including the addition as the invention of applicants of Example 70 which in its presentment of the use of pigment grade zinc oxide in a binder is significantly different from anything theretofore disclosed in either said predecessor 1949 or 1952 applications, and represents the contribution of another, i.e. of RCA;

(c) Application claim No. 35 was added by amendment in much the same wording as was carried through to its grant as patent claim No. 14;

(d) An appeal was taken to the Court of Customs and Patent Appeals from a rejection by the Patent Office Board of Appeals of said application claims Nos. 1 and 35;

(e) In the prosecution of which appeal the presence of pigment grade zinc oxide coverage in the aforementioned application claim No. 17 in the predecessor 1952 application Serial No. 311,546 was successfully urged to secure the reversal of said rejection and the grant to Plaintiff of the 3,121,006

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patent claims Nos. 1 and 14, without disclosure of the facts alleged in preceding Paragraphs 9 and 10.

12. Further answering, Defendants aver that claims 1 and 14 of Patent No. 3,121,006 in suit, to the extent that they are asserted to dominate the use of pigment grade zinc oxide on electrostatic photocopy paper, are invalid as a result of their fraudulent procurement, in that

to Plaintiff's knowledge, the applicants for said patent, said Middleton and Reynolds, did not themselves invent such copy paper, and

the Plaintiff, through its agents, in bad faith and with knowledge of the foregoing, sought to and did procure the grant to itself of said claims 1 and 14

as a result of fraudulent proceedings before the Patent Office and before the Court of Customs and Patent Appeals,

as part of an intentional attempt unlawfully to appropriate and dominate the discovery of another, i.e. the successful use of pigment grade zinc oxide in a coating on electrostatic photocopy paper.

13. The aforesaid fraudulent proceedings included:

(a) In Plaintiff's prosecution of the said 1952 application Serial No. 311,546

(i) its presentment of application claim 17 for zinc oxide, without limitation to phosphor, as defining an invention of the applicants,

(ii) its election of zinc oxide unqualified as the species to which it would confine its claims in the absence of subsequent broad claim allowance,

(iii) its continuing attempts until after the filing of its 1957 application for Patent No. 3,121,006 in suit, to secure the allowance and grant to it of said claim 17,

all as more fully hereinbefore averred and all with the intent that claim 17 should cover and dominate the use of pigment zinc oxide,

(b) In Plaintiff's filing and prosecution of its 1957 application Serial No. 668,165 which matured to patent No. 3,121,006 in suit

(i) its drafting, presentment and prosecution of application claims 1 and 35 to their grant as patent claims 1 and 14 respectively,

(ii) its inclusion in the specification of example No. 70 as the contribution and invention of the applicants,

(iii) the inclusion in the specification of much additional information respecting the use of pigment zinc oxide as the original contribution of the applicants,

all as more fully hereinbefore averred and all with the intent that claims 1 and 14 should cover and dominate the use of pigment zinc oxide; and

(c) In Plaintiff's appellate proceedings before the Court of Customs and Patent Appeals

its use of the pigment zinc oxide coverage of the aforesaid Serial No. 311,546 application claim 17, in securing the reversal of the appealed-from decision and the grant to itself of said Patent No. 3,121,006 claims 1 and 14, and

(d) Such fraudulent proceedings further including Plaintiff's failure to disclose to the Patent Office and to the Court of Customs and Patent Appeals the derivation by the applicants Middleton and Reynolds from RCA of their knowledge of the efficacy of pigment zinc oxide, and the fact that said applicants had not themselves invented the subject matter sought to be patented, all as more fully hereinbefore averred.

14. On information and belief Defendants aver that claims 1 and 14 of said Patent No. 3,121,006 in suit are unenforceable because of Plaintiff's unclean hands by reason of wrongful and fraudulent procurement of said claims, as more fully averred in preceding Paragraphs Nos. 12 and 13, and by reason of misuse of said claims after grant of the patent including Plaintiff's attempts to enforce their alleged pigment zinc oxide coverage by the institution of infringement litigation against, and licensing and/or attempting to license Defendants and others of Plaintiff's competitors.

15. Defendants further aver that United States Patent No. 3,121,006 and each claim thereof, are invalid in that:

(a) The alleged invention thereof was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicants for said patent.

(b) The alleged invention thereof was patented or described in a printed publication in this or a foreign country or was in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States.

(c) The applicants for said patent, or their legal representatives or successors in interest, had abandoned the invention.

(d) The applicants for said patent, or their legal representatives or assigns, abandoned the subject matter of the claims of said patent by delay in presenting claims therefor until many years after printed publication of processes allegedly falling within the scope of the said claims.

(e) The applicants for said patent, or their legal representatives or assigns, first patented or caused to be patented the invention thereof on an application filed in a country foreign to the United States more than twelve months prior to the filing of the application therefor in this country.

(f) The alleged invention was described in a

patent granted on an application for patent by another filed in the United States before the invention thereof by the applicants for patent.

(g) The applicants for said patent did not themselves invent the subject matter sought to be patented.

(h) Before the alleged invention thereof by the applicants for said patent the invention was made in this country by another who had not abandoned, suppressed or concealed it.

(i) The differences between the subject matter sought to be patented in the patent and the prior art are such that the subject matter as a whole would have been obvious at the time the alleged invention was made to a person having ordinary skill in the art to which said subject matter pertains.

(j) The specification of said patent does not contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and does not set forth the best mode contemplated by the applicants for carrying out their invention.

(k) The claims of the patent do not particularly point out and distinctly claim the subject matter of the alleged invention.

(l) The claims of said patent are based on new

matter introduced into the application by amendment and by refiling, in violation of Title 35, United States Code.

(m) The specification and claims of said patent No. 3,121,006 fail to comply with the requirements of the Patent Laws of the United States.

16. On information and belief, Defendants further aver that said Patent No. 3,121,006 is unenforceable against Defendants

(a) Because of laches and estoppel and intervening rights predicated upon Plaintiff's prosecution of its applications therefor.

(b) Because Plaintiff is equitably estopped from enforcing its rights of action, if any, such estoppel being predicated upon its lack of diligence in, and/or abstaining from, asserting or attempting to enforce any alleged rights under said patent for more than nine months following Defendant's positive denial to Plaintiff of liability thereunder in mid-June of 1966, despite Plaintiff's agreement promptly to present its rebuttal, if any, in reasonable reliance upon which Defendants substantially changed position by expensive research and greatly increased investments in their electrostatic photocopying business theretofore and now again assumed by Plaintiff.

17. On information and belief, Defendants aver that the alleged invention contained in said Patent No. 3,121,006 was developed in connection with a Government contract utilizing

money paid by the taxpayers of the United States, wherefore Plaintiff is not entitled to ownership of the aforesaid Letters Patent.

18. Defendants further aver that they do not now and have not infringed any valid claim of said Patent No. 3,121,006.

Patent No. 2,588,699

19. Further answering, Defendants aver that said Patent No. 2,588,699, and each claim thereof, are invalid in that:

(a) The alleged invention thereof was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for said patent.

(b) The alleged invention thereof was patented or described in a printed publication in this or a foreign country or was in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States.

(c) The applicant for said patent, or his legal representatives or assigns, had abandoned the invention.

(d) The applicant for said patent, or his legal representatives or assigns, abandoned the subject matter of the claims of said patent by delay in asserting claims thereto

until many years after printed publication of subject matter allegedly falling within the scope of said claims.

(e) The differences between the subject matter sought to be patented in the patent and the prior art are such that the subject matter as a whole would have been obvious at the time the alleged invention was made to a person having ordinary skill in the art to which said subject matter pertains.

(f) The subject matter sought to be patented in the patent is inoperative and/or without the utility required by the patent laws.

(g) The specification of said patent does not contain a written description of the invention sought to be patented therein and of the manner and process of making and using it, in such full, clear, concise and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected to make and use the same; and does not set forth the best mode contemplated by said applicant of carrying out the invention.

(h) The claims of the patent do not particularly point out and distinctly claim the subject matter of the alleged invention.

(i) The claims of said patent are based on new matter introduced into the application by amendment and/or by refiling, in violation of Title 35, United States Code.

(j) The specification and claims of said Patent

No. 2,588,699 fail to comply with the requirements of the Patent Laws of the United States.

20. On information and belief, Defendants aver that said Patent No. 2,588,699 is unenforceable against Defendants

(a) Because of laches and/or equitable estoppel predicated upon Plaintiff's lack of diligence in, and/or abstaining from asserting or attempting to enforce its alleged rights under said patent against Defendants until its bringing of this action, notwithstanding that Plaintiff had from their inception complete knowledge of Defendants' activities now accused as the infringements herein, in reasonable reliance upon which lack and abstinence, Defendants substantially changed position by making large expenditures in research and greatly increased investments in their said photocopying machine business, and

(b) Because of Plaintiff's unclean hands predicated upon Plaintiff's fraudulent procurement and misuse of Patent No. 3,121,006 in suit as hereinbefore averred in Paragraphs Nos. 9 through 14 inclusive, and upon the intimate relationship and essential interdependency between the subjects matter of said two patents in suit, according to which the rights under Patent No. 2,588,699 which Plaintiff is attempting to enforce against Defendants herein, are allegedly infringed by Defendants' means for electrostatically charging the xerographically sensitive member, which charging is accused herein as constituting the electrostatic charging step in the process of 3,121,006 patent claims 1 and 14 allegedly infringed by Defendants.

21. Defendants further aver that they do not now and have not infringed any valid claim of said Patent No. 2,588,699.

FIRST COUNTERCLAIM FOR DECLARATORY JUDGMENT

22. Jurisdiction for this Counterclaim for Declaratory Judgment as to alleged patent rights of Plaintiff is ... on the Patent Laws of the United States and Title 28, United States Code, Section 1331.

23. In its Complaint herein Plaintiff has alleged its ownership of United States Patent Nos. 2,588,699 and 3,121,006 and has brought this action for infringement of said patents by Defendants.

24. Defendants repeat each and every averment contained in Paragraphs 5 through 21 inclusive of the foregoing Answer, with the same force and effect as though each were recited herein in full.

25. Defendants aver that neither of said patents has been or is being infringed directly or contributorily by either of them and upon information and belief Defendants aver that each of said patents is invalid and unenforceable against Defendants.

26. A case of actual controversy exists between Plaintiff and Defendants as to the validity, infringement and enforceability of each of said patents.

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SECOND COUNTERCLAIM FOR ANTITRUST VIOLATION

27. Jurisdiction for this Counterclaim is based on the antitrust laws of the United States, and is brought pursuant to Sections 4 and 16 of the Clayton Act (Title 15, United States Code, Sections 15 and 26) for recovery of damages and injunctive relief for violations of Section 2 of the Sherman Act (Title 15), United States Code, Section 21.

28. Venue is laid in this District pursuant to Section 1391(c) of Title 28, United States Code, and Section 12 of the Clayton Act (Title 15, United States Code, Section 22).

Nature of Trade Involved

29. Plaintiff Xerox Corporation (hereinafter Xerox) is, and for a long time has been, engaged in the business of making, using, selling and leasing copying apparatus and particularly electrostatic photocopy apparatus, various parts thereof, including replacement parts, and supplies therefor. Xerox has manufacturing plants in Rochester and Webster, New York, from which it ships its products in this District and in interstate commerce throughout the United States. Xerox operates processing laboratories in Chicago, New York City, Boston and Philadelphia and maintains branch sales offices in the principal cities of the United States. During 1966 revenue to Xerox from rentals, service and royalties exceeded $371,000,000 and revenue from net sales

exceeded $156,000,000 for a total of over $528,000,000. The total 1966 revenue was a 35 per cent increase over the comparable figure for 1965. Xerox is the major producer, seller and lessor of electrostatic photocopying apparatus and supplies in the United States.

30. Dennison Manufacturing Company (hereinafter Dennison) during 1957 became licensed on a royalty paying basis by RCA under its United States electrostatic photocopying patents which ultimately included and still includes United States Patent No. 3,052,539, granted September 4, 1962, on an application filed in 1953 as a continuation-in-part of an application filed September 29, 1951.

31. Thereafter, since January of 1964, Dennison has been manufacturing, using and distributing and Defendant Dennison Copier Corporation (hereinafter Copier) has been distributing electrostatic photocopy apparatus and photocopy paper therefor, which is coated with non-phosphor pigment grade zinc oxide in an insulating organic resin binder, which activities the Defendants intend to continue. The principal plant of Dennison and Copier is in Framingham, Massachusetts, from which they ship their products in interstate commerce within this District and throughout the United States and Dennison maintains branch sales offices in principal cities of the United States.

32. On February 11, 1964 Xerox was granted patent

No. 3,121,006 referred to in Paragraph 7 of the Answer, containing claims directed solely to processes of electrostatic photocopying involving the use in a binder of materials defined in part as:

> ". . . finely-divided particles of an inorganic photoconductive insulating metallic-ions containing crystalline compound. . . "

which materials are asserted by Xerox, as hereinbefore set forth in the Answer, to include non-phosphor pigment grade zinc oxide. Said patent contains no claim directed specifically to non-phosphor pigment grade zinc oxide.

33. The Xerox electrostatic photocopy process is a dry, electrostatic process of indirect graphic reproduction in which a latent image and from that a powder image is formed on the electrostatically charged surface of a selenium coated drum, transferred from the drum to ordinary paper and then fused to the paper, generally by heat, which process has been previously described in paragraph 5 of the Answer wherein it is referred to as the first category. On the other hand, the Dennison electrostatic photocopy process differs substantially in that, without the use of expensive and repeatedly used selenium, Dennison utilizes "single use" copy paper described in preceding Paragraph No. 31, on which paper a latent image is formed directly and a visible image is developed and fixed thereon without transfer. This process cannot use ordinary paper and has previously been described in Paragraph 5 of the Answer.

wherein it is referred to as the second category. In both categories, apparatus is required for electrostatically charging the surface which is to receive the latent image, and Patent No. 2,588,699 herein in suit is allegedly directed to one such apparatus.

Conduct of Plaintiff

34. On information and belief, Xerox has amassed and now owns hundreds of unexpired United States patents and numerous United States patent applications relating to electrostatic photocopy apparatus and electrostatic photocopying processes.

35. As a result in part of its accumulation of patents described in Paragraph 34, Xerox is the only company in the United States making, selling and leasing electrostatic photocopy apparatus utilizing the indirect method of graphic reproduction in which a powder image is formed on a drum and is then transferred from the drum to ordinary paper as described in preceding Paragraph No. 33. Plaintiff has refused and refuses to license others under its United States patent rights in this indirect transfer field.

36. On information and belief, in each fiscal year from 1960 through 1967, Xerox has substantially increased its total income from sales and rentals of electrostatic photocopy apparatus, all of which apparatus employs the indirect method.

37. On information and belief, the only electrostatic photocopy apparatus in extensive use in the United States other than the apparatus employing the Xerox indirect transfer method, is of the direct printing type which employs paper coated with pigment grade zinc oxide in a binder on which the permanent image is formed directly as described.

38. On information and belief, income in 1966 and 1967 to date from sales and rentals by Xerox of electrostatic photocopy apparatus and supplies involving its indirect transfer method constitute approximately two-thirds of the income from all sales and rentals in the United States of all electrostatic photocopy apparatus and supplies, including those which employ the direct printing method.

39. Among Xerox' said accumulation of United States patents are patents Nos. 2,588,699 and 3,121,006 granted to Xerox or its predecessors on March 11, 1952 and February 11, 1964, respectively.

40. In its Complaint herein Xerox has alleged its ownership of United States Patents Nos. 2,588,699 and 3,121,006 and has brought this action for infringement of said patents by Defendants.

41. Xerox has brought Civil Actions against two other competitive users of pigment grade zinc oxide for infringement of said patent 3,121,006 styled Civil Action No. 64-C-259

v SCM Corporation and Civil Action No. 64-C-260 v Addressograph-Multigraph Corporation, both in the United States District Court for the Northern District of Illinois, Eastern Division. Both of said actions were settled by Xerox on terms under which the defendants in said actions have continued the accused electrostatic photocopy activities employing paper coated with pigment grade zinc oxide in a binder, but Defendants herein are without knowledge of the terms of said settlements.

Violation

42. Beginning in or about 1946, the exact date being to the Defendants unknown, and continuing thereafter up to and including the filing of its complaint herein, Xerox has attempted to monopolize and has monopolized trade and commerce in

(a) Copy paper coated with pigment grade zinc oxide for use in electrostatic photocopy apparatus

(b) Electrostatic apparatus employing the copy paper described in (a), and

(c) Electrostatic photocopy apparatus,

all in violation of Section 2 of the Sherman Act (15 United States Code, Section 2). Xerox is continuing and will continue its unlawful conduct unless the relief prayed for herein is granted.

43. During the period of time referred to in Paragraph 42 and for the purpose of effectuating and maintaining the aforesaid unlawful conduct, Xerox, among other things, has:

(a) Knowingly and willfully attempted to establish a monopoly in unpatented copy paper which is coated with pigment grade zinc oxide, used in electrostatic photocopy apparatus in practicing the process purportedly covered by Patent No. 3,121,006, which patent Xerox alleges it owns and which is described in Paragraphs 32 and 39 of this counterclaim, and attempted to require Defendants and other manufacturers and sellers of said paper to accept licenses under said patent on terms dictated by Xerox.

(b) Procured Patent No. 3,121,006 as a result of fraud and bad faith as set forth in Paragraphs 9 through 13 inclusive, of the Answer (which paragraphs are herein incorporated by reference) in that through its agents it prosecuted and amended said patent applications knowing that the applicants therefor did not themselves invent, for use in an electrostatic photocopy process, copy paper using a coating of pigment grade zinc oxide and knowing that the utility and/or operativeness of said paper was first disclosed to Plaintiff by personnel of RCA, before either the applicants for Patent No. 3,121,006 or the Plaintiff were cognizant of or had disclosed or were disclosing or claiming the usefulness of such paper or its operativeness in electrostatic photocopying in any application for patent or otherwise, and despite said knowledge, knowingly, willfully and fraudulently

failed to disclose said facts to the United States Patent Office or the Court of Customs and Patent Appeals.

(c) Fraudulently and in bad faith enforced or attempted to enforce Patent No. 3,121,006 knowing the same to be invalid, in order to dominate and monopolize the use of pigment grade zinc oxide coated paper and by said domination to acquire throughout the United States a complete domination over trade and commerce in electrostatic photocopy apparatus using such paper in addition to electrostatic photocopy apparatus employing its indirect transfer method.

(d) Knowingly and willfully accumulated patents relating to electrostatic photocopy apparatus and processes of importance related thereto in order to suppress competition and restrain the use of any apparatus designed to compete with Plaintiff's copying apparatus.

(e) Refused to license others under its United States electrostatic photocopying patent rights in the indirect transfer field.

(f) Knowingly and willfully engaged in patent infringement suits to harass and coerce and discourage potential and actual competitors from selling and using electrostatic photocopying paper and apparatus.

(g) Knowingly, willfully and systematically threatened and discouraged actual and potential competitors.

(h) Knowingly and willfully impeded the ability to compete of such licensees as have been required to accept royalty-bearing licenses from Xerox under Patent No. 3,121,006 for the use and sale of copy paper coated with pigment grade zinc oxide, and attempted to so impede Defendants, in that such royalties are added to the cost of said licensees in distributing said paper for said apparatus.

44. By reason of the unlawful conduct of Xerox described in Paragraphs 42 and 43, the Defendants were directly injured in their business and property, which injury is continuing, and have sustained substantial damage including

(a) Expenditure of substantial amounts of money to investigate the scope and validity of Plaintiff's patents;

(b) The loss of numerous customers and sales, actual and potential.

In addition, Defendants will be forced to expend large sums of money and divert the time of their officers and employees to defend against patent infringement claims of Xerox.

WHEREFORE DEFENDANTS PRAY:

(a) That the Complaint herein be dismissed with prejudice.

(b) That the Court declare that Patent No. 2,588,699

is invalid, unenforceable against Defendants, and has not been infringed by Defendants.

(c) That the Court declare that Patent No. 3,121,008 is invalid, unenforceable against Defendants, and has not been infringed by the Defendants.

(d) That an injunction be issued permanently enjoining Plaintiff and all in privity with it from suing or threatening to sue or making any charge against Defendants, their suppliers, officers, agents, servants or employees, or against their customers mediate or immediate, on account of alleged infringement of either of said patents.

(e) That the amount of damages suffered by Defendants be ascertained and treble damages awarded to Defendants as required by law.

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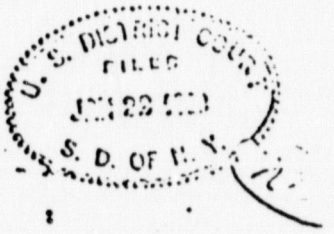
Exhibits to Memorandum in Support of Plaintiff's Rule 42(b) Motion

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK



XEROX CORPORATION,

Plaintiff,

v. : 67 Civ. 3302

DENNISON MANUFACTURING CO., and DENNISON COPIER CORPORATION,

Defendants.

PLAINTIFF'S REPLY TO DEFENDANTS' COUNTERCLAIMS DENOMINATED AS SUCH

Plaintiff, for reply to the first counterclaim of the defendants, as set forth in Paragraphs 22 through 26 of the Answer filed herein, says:

1. Replying to Paragraphs 22, 23 and 26 of the Answer, plaintiff admits the averments thereof.

2. Replying to Paragraph 24 of the Answer, insofar as it incorporates Paragraph 5 thereof, plaintiff admits that both patents in suit relate to electrostatic photocopying and that certain past commercial activities in electrostatic photocopying may be classed in two different categories. Plaintiff further admits that it developed the first commercial type of electrostatic photocopying in which the copy may be made upon ordinary paper, the image being formed first upon the surface of a photoconductive material such as selenium and then being transferred to the paper. Plaintiff further admits that there is another commercial embodiment of electrostatic photocopying in which

the image is formed directly upon the surface of paper coated with zinc oxide in an insulating organic resin binder and that defendants' accused activities include that type of electrostatic photocopying. Plaintiff also admits that patents relating to that embodiment of electrostatic photocopying have been issued to Radio Corporation of America, but is without knowledge or information sufficient to form a belief as to the alleged license from Radio Corporation of America to the defendants, and denies each and all of the other allegations of Paragraph 5.

3. Replying to Paragraph 24 of the Answer, insofar as it incorporates Paragraphs 6 and 7 thereof, plaintiff admits the averments of Paragraphs 6 and 7, but notes that the quoted term "metallic-ions," as used therein, should properly be "metallic-ion."

4. Replying to Paragraph 24 of the Answer, insofar as it incorporates Paragraph 8 thereof, plaintiff admits that the "pigment grade" species of zinc oxide was not specifically disclosed in the 1949 and 1952 applications and that certain of the claims originally presented in the 1952 application were restricted by the requirement for compounds in the "class consisting of the sulphides and selenides of cadmium and zinc," but denies each and all of the remaining allegations of Paragraph 8.

5. Replying to Paragraph 24 of the Answer, insofar as it incorporates Paragraph 9 thereof, plaintiff admits that personnel of Radio Corporation of America demonstrated to executive officers of the plaintiff in December, 1952, and in the summer of 1953, an electrostatic photocopying process utilizing what was stated by the Radio

Corporation of America permitted to be paper coated with zinc oxide in a binder, but denies each and all of the remaining averments of Paragraph 9.

6. Replying to Paragraph 24 of the Answer, insofar as it incorporates Paragraph 10 thereof, plaintiff admits that an amendment and argument was filed in the Patent Office in the 1952 application on November 6, 1953, which amendment presented further claims in the application, including claim 17 which was generic to all types of zinc oxide, and that another amendment and argument was filed in that application on March 14, 1955, as a result of which all of the claims in the application, except claims 16 through 20, were limited to phosphor materials, but denies each and all of the remaining averments of Paragraph 10.

7. Replying to Paragraph 24 of the Answer, insofar as it incorporates Paragraph 11 thereof, plaintiff admits that claim 1 of the 1957 application, as drafted, presented and prosecuted to grant as patent claim 1, was directed to a process utilizing any of a class of materials which includes pigment grade zinc oxide; that there were changes in and additions to the specification of the predecessor 1952 application, including the addition of Example 70 to the specification as one species included within the scope of the claimed invention; that application claim 35 was added by amendment and in much the same wording was carried through to its grant as patent claim 14; that an appeal was taken to the Court of Customs and Patent Appeals from the affirmance by the Patent Office Board of Appeals of the Examiner's rejection of application claims 1

and 35; that the Court of Customs and Patent Appeals reversed the decision of the Patent Office Board of Appeals; and that claim 17 of the application was cancelled by an amendment filed June 26, 1957; but plaintiff denies each and all of the other averments of Paragraph 11.

8. Replying to Paragraph 24 of the Answer, insofar as it incorporates Paragraphs 12 through 16 and 18 through 21, inclusive, thereof, plaintiff denies each and all of the averments of Paragraphs 12 through 16 and 18 through 21.

9. Replying to Paragraph 24 of the Answer, insofar as it incorporates Paragraph 17 thereof, plaintiff admits that the United States Government has been granted a royalty-free license under patent No. 3,121,006 as a result of work done under a Government contract, but denies each of the other averments of Paragraph 17.

10. Replying to Paragraph 25 of the Answer, plaintiff denies each and all of the averments thereof.

For reply to the second counterclaim of the defendants set forth in Paragraphs 27 through 44, inclusive, of the Answer filed herein, plaintiff says:

11. Replying to Paragraph 27 of the Answer, plaintiff denies so much of the allegations thereof as may be deemed to assert that there is any basis in law or in fact for the second counterclaim set forth in the Answer, but admits the remaining averments thereof.

12. Replying to Paragraphs 28, 36 and 40 of the Answer, plaintiff admits the averments thereof.

13. Replying to Paragraph 29 of the Answer, plaintiff admits that it is and has been engaged in, among

other things, making, selling and leasing electrostatic photocopy apparatus; that it has a manufacturing plant in Webster, New York, from which it ships products within this district and in interstate commerce; that it operates reproduction service centers in Chicago, New York City, Waltham, Mass. and Philadelphia, and maintains sales offices in other cities of the United States; that its revenue from all operations during 1966 included: from rentals, services and royalties - in excess of 371 Million Dollars; and, from net sales - in excess of 156 Million Dollars, for a total of over 528 Million Dollars; that the total 1966 revenue was approximately a 35% increase over the comparable figure for 1965; and that it is a major producer, seller and lessor of electrostatic photocopying apparatus; but denies each and all of the other allegations of Paragraph 29.

14. Replying to Paragraph 30 of the Answer filed herein, plaintiff denies knowledge or information sufficient to form a belief as to the truth of the averments therein.

15. Replying to Paragraph 31 of the Answer filed herein, plaintiff admits that defendants have been distributing electrostatic photocopy apparatus and photocopy paper therefor which is coated with zinc oxide in an insulating organic resin binder; and that defendants have a plant in Framingham, Massachusetts; but denies knowledge or information sufficient to form a belief as to the truth of the other allegations of Paragraph 31.

16. Replying to Paragraph 32 of the Answer filed herein, plaintiff admits that patent No. 3,121,006 was issued to it on February 11, 1964, containing claims

directed to a process of electrostatic photocopying involving the use in a binder of materials defined in part as

> ". . . finely-divided particles of an inorganic photoconductive insulating metallic-ion containing crystalline compound . . ."

which materials are asserted by plaintiff to include pigment grade zinc oxide, and that said patent contains no claim directed specifically to the use in a binder of pigment grade zinc oxide; but denies each and all of the other allegations of Paragraph 32.

17. Replying to Paragraph 33 of the Answer filed herein, plaintiff admits that its electrostatic photocopying process is an indirect process in which a latent image, and from that a powder image, is formed upon the electrostatically charged surface of a photoconductive material such as selenium and the powder image is then transferred to another carrier such as paper, after which the powder image is fused generally by the application of heat. Plaintiff further admits that the defendants' electrostatic photocopying process, as practiced commercially, utilizes "single use" copy paper on which paper a latent image is formed directly and a visible image is developed and fixed thereon without transfer; that the defendants' commercial process does not use ordinary paper and that both the plaintiff's and defendants' processes require apparatus for electrostatically charging the surface which is to receive the latent image; and that patent No. 2,588,699 here in suit is directed to such apparatus; but denies each and all of the remaining allegations of Paragraph 33.

18. Replying to Paragraph 34, plaintiff admits that it owns several hundred unexpired United States patents and patent applications relating to electrostatic photocopying apparatus and processes; but denies each and all of the other allegations thereof.

19. Replying to Paragraph 35 of the Answer filed herein, plaintiff admits on information and belief that, at present, it is the only company in the United States making, leasing and selling electrostatic photocopy apparatus (i.e., electrostatic apparatus for use in the office copying field) utilizing the indirect method in which a powder image is formed upon the surface of a photoconductive material and is then transferred to another surface; but denies each and all of the other allegations thereof.

20. Replying to Paragraph 37 of the Answer filed herein, plaintiff denies knowledge or information sufficient to form a belief as to the truth of the allegations thereof.

21. Replying to Paragraph 38 of the Answer filed herein, plaintiff denies knowledge or information sufficient to form a belief as to the truth of the averments thereof.

22. Replying to Paragraph 39 of the Answer filed herein, plaintiff admits that patent No. 2,933,699 was issued on March 11, 1952, to a predecessor in title of plaintiff and that patent No. 3,121,006 was issued on February 11, 1964, to plaintiff; but denies each and all of the remaining averments thereof.

23. Replying to Paragraph 41 of the Answer filed herein, plaintiff admits having brought Civil Actions against two other users of pigment grade zinc oxide coated paper for infringement of patent No. 3,121,006 and styled Civil Action No. 64-C-259 v. SCM Corporation and Civil Action No. 64-C-260 v. Addressograph-Multigraph Corporation, both in the United States District Court for the Northern District of Illinois, Eastern Division; that both of those suits were settled by license arrangements which require payment to plaintiff of a reasonable royalty for the continuation by the defendants in those actions of electrostatic photocopy activities employing paper coated with pigment grade zinc oxide in a binder; but plaintiff denies each and all of the other allegations of Paragraph 41.

24. Replying to Paragraphs 42, 43 and 44 of the Answer filed herein, plaintiff denies each and all of the averments thereof.

First Defense

25. Defendants' second counterclaim fails to state a claim against the plaintiff upon which relief can be granted.

Second Defense

26. Neither of the defendants has been injured in its business or property by reason of any act of the plaintiff.

Third Defense

27. Defendants cannot be heard to complain of plaintiff by reason of plaintiff having enforced or sought to enforce plaintiff's patent rights against infringers or contributory infringers.

WHEREFORE, plaintiff demands

1. That both the first and second counterclaims set forth in defendants' Answer filed herein be dismissed with costs and that plaintiff be awarded reasonable attorneys' fees for defending against the same; and

2. That the plaintiff be granted such other and further relief as the equity of this case may require and as the Court may deem just and proper.

BRUMBAUGH, FREE, GRAVES & DONOHUE

Dated: New York, N.Y.
January 22, 1968

By _____
Mark N. Donohue

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New York, New York 10005

Of Counsel

EXHIBIT 7

E 833

Exhibits to Memorandum in Support of Plaintiff's Rule 42(b) Motion

LESSONS
OF
LEADERSHIP

PART LXXXVIII

C. Peter McColough of Xerox Corp.

Avoiding the "big-company syndrome"

In 1942, a Rochester, N.Y., cab driver invested $1,000 in a modest-sized home town enterprise called The Haloid Co.

Today, that investment is worth well over $2 million. The company, which has increased the number of its shares 180-fold through stock splits since 1954, is now known as Xerox Corp.

Its revenues, $66 million in 1961—the year after it began marketing one of history's most successful products, the Xerox 914 copier—totaled $1.96 billion in 1971, and should easily top $2 billion this year.

The story of Xerox (the name comes from a coined word, "xerography," stemming from *xeros*, the Greek word for "dry" and *graphein*, Greek for "to write") is of course one of the most striking in the annals of American business.

Exceedingly talented men have had leading roles in that story. Foremost in the current chapter is C. (for Charles) Peter McColough, a native of Canada who started out in law but went on to triumphs in industry that are the stuff of which dreams are made.

Mr. McColough, a graduate of Halifax's Dalhousie University Law School and of Harvard Business School, was a vice president at the comparatively small Lehigh Coal & Navigation Co. in Philadelphia in 1954 when he talked with the late Joseph C. Wilson—long Xerox's chief executive officer, and the man who made the key decisions in its development of its revolutionary copiers. The infant art of xerography was "all promise," Mr. McColough says, but he signed on.

His first job was managing a reproduction center in Chicago, and from there he went on to a succession of posts, each higher ranked, in which he built up the company's marketing force and played an important part in developing its pricing system—without either of which its explosive growth would not have been possible.

He became Xerox's president in 1966. Two years later, Mr. Wilson announced he would turn to long-range planning, and Mr. McColough became chief executive officer. And when Joe Wilson died unexpectedly last year at 61, Peter McColough became board chairman as well.

Only 50, Mr. McColough works very hard, is strong for social service by businessmen, but also sails and skis and spends as much time as he can with his wife and their five children, the oldest 18.

Xerox has moved its headquarters to Stamford, Conn.—the idea was to underline that its xerography operations in Rochester were only part of its interests, which include computers and educational publishing. So sailing is handy for Mr. McColough on Long Island Sound—his home, 20 minutes from his office, overlooks Greenwich Harbor. Sailing is also handy at a home he has near Palm Beach, Fla., and skiing is handy at a third home in New York's Catskill Mountains.

Like that Rochester cabbie who is now in Florida, retired, and many others, Peter McColough has been made wealthy by Xerox stock. He and his immediate family own shares

Lessons of Leadership: C. Peter McColough *continued*

worth upwards of $10 million, and he has options to buy much more.

He has some interesting views about riches, and about the way to run a huge corporation. They're given in the following interview with a NATION'S BUSINESS editor.

How did American businessmen ever get along without the Xerox copy?

Well, there were other ways of copying documents—photographic ways. But they were very expensive. The fact is that people just didn't have the information that our copies now bring them.

And it would be inconceivable, now, ever to go back to the days when the information wasn't available.

I must say it's a mixed blessing. It's very good for our business, but when I go home on the weekend with two briefcases, I often wish Xerox had never existed.

Will the paper work explosion become greater?

It's getting greater. Every bit of information—whether it's from a copier or from a computer—somehow or other breeds demand for information, because it's available to more people. The more information people get, the more they want.

One of our company's objectives for the latter part of the '70s is not just to be able to spew out more information, but to make it more meaningful—hopefully, more selective. Bigger and faster copiers are not the answer, because you're just going to overload the mails, overload people's desks, overload everything.

What would you say is Xerox's greatest strength as a company?

I think that it's probably our aggressive spirit of innovation in depth—not assets like patents or manufacturing plants or money. We believe willingness to try new things should be general in the company, and not just connected with research and development. Related, I think, is the fact that we're a young company compared to many others. The average age of Xerox people world-wide, I suppose, is about 30.

What is the company's greatest weakness, if any?

It's very hard for me to tell you what that would be. I think the greatest fear we have about weakness is that as we grow, and we're already very large, we will get the big-company syndrome—and we will become slow and cautious, people will be afraid to make mistakes, and we'll build up barriers and fail to communicate. There's no more important thing to me in my job than trying to do what I can to prevent that.

As you get bigger and older, you very often want to play it safe. You're trying to guarantee your stature or your security.

How do you fight the big-company syndrome?

Well, for one thing, we watch our rules and procedures very carefully. As the company gets bigger, it does have to have more procedures because you can't make the same decision five times a day—which you do if you have no rules and procedures.

But you don't want to overproceduralize. If you do, the guys who get ahead are simply those who know the rules.

We want people to get ahead not because they know the rules but because they're thinking. If the rules aren't good, people should question them and they should be changed.

Also, we try to give individuals responsibility. I have a very strong feeling about committees. We have groups that study things, but I don't allow any decisions by committees of executives in the company—that's one of the ways you bring death upon you. Committees tear everything down to a decision on the lowest common denominator. The power's diffused, the authority's diffused, the words are diffused.

Another thing, we try not to have some of the trappings of a big, staid company. If a guy has a bigger job, he may have to have a bigger office because he has more meetings. But we don't get into all the hierarchy of distinctions—like the key to the executive washroom—which really start to bring on hardening of the arteries.

There are no executive washrooms at Xerox?

That's right. As a matter of fact, we don't have executive dining rooms. We don't want people to be worrying about their positions at the dining tables, and so forth. We want them to mix with other people.

We do a lot of other things to try to keep the company informal.

We're very careful to allow expression of thinking in meetings, rather than beating people over the head if they say things that are unpopular.

I'm creating a number of committees of rank-and-file employees for advisory purposes and, in some cases, for decision-making purposes. That's quite different from having committees of managers, because they don't have responsibility for operations.

Let me give you some examples.

We announced last fall that 20 old people from the company would be allowed annually to go away on paid social service leave for a year. Rather than having the hierarchy of the company, me or a group of officers, select those who go, we selected a committee of seven, five of whom are not high-ranking employees, and gave them decision-making power.

We want rank-and-file employees to be more involved in the company. We can't allow them to vote on the dividend—by law, that has to be done by the board of directors. We can't have them vote on planned expansion.

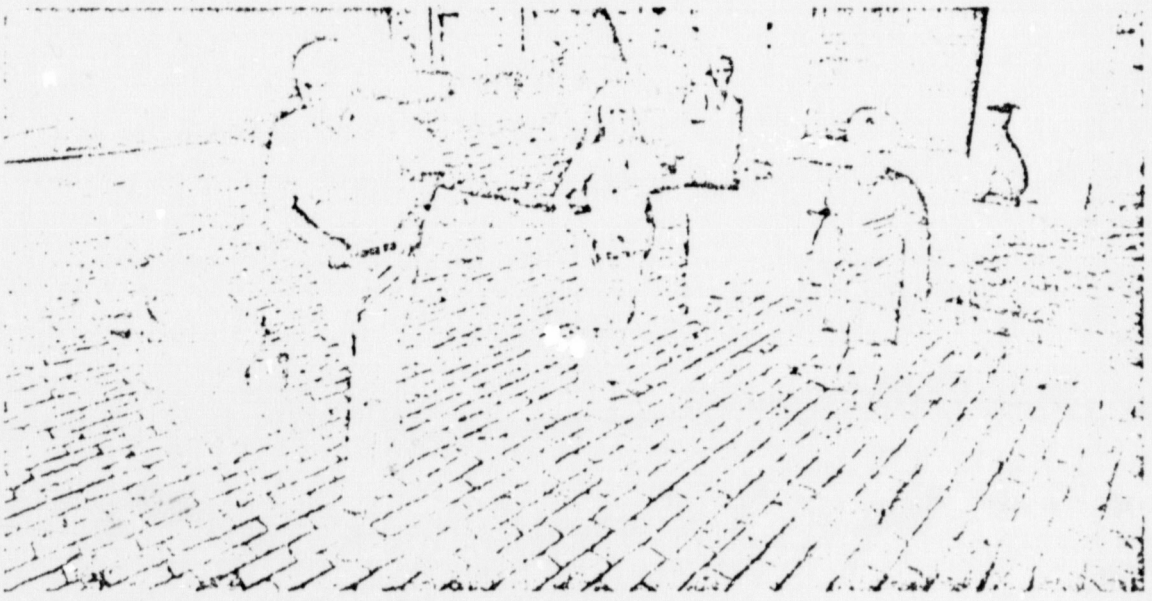
But I'm trying to find ways to get more and more of them involved in things that affect policies of the company where they're spending their lives.

We have a rank-and-file advisory committee on minority relations—how many members of minorities should we and can we hire or promote? We're going to have another on training of salesmen and technical representatives, and so forth.

I understand it's been accepted practice for subordinates to address you and your predecessor as chairman, Mr. Wilson, by your first names.

Oh, sure. We're first-name, right through the company. Joe Wilson set that pattern. With the old factory hands, it was always, "Hi, Joe."

There are few people who don't call me Peter—no old-timers, anyway. Around the office, more people now call me Mr. McColough, but I think that's because they're new and I'm getting older.



A family assemblage for a photograph in front of the McCloughs' Greenwich, Conn., home breaks up in a minor crisis as a puppy scampers off. With C. Peter McClough and his wife, Virginia, are three of their five children: Peter, 18, Virginia, 16, and Robert, 8. Virginia's twin, Ian, and another brother, Andrew, 17, were off at a camp in Colorado when the picture was taken.

Lessons of Leadership: C. Peter McClough *continued*

What would you say has been your most important contribution to the company's success?

I've been involved in many things here, and I really don't have a good answer for you. I suppose the closest I can come is to take some credit, along with others, for developing the method of pricing that we eventually adopted for our copiers—a charge per piece of paper.

We had a new machine back in 1950 that was very much ahead of its competitors technically. But it was much more expensive, because of its complexity, and we obviously couldn't sell it at a price that would really let us penetrate the market.

At that time you could buy copiers for a few hundred dollars and we would have had to price ours in the thousands. As a matter of fact, the early price on it for sale was $29,600.

We really couldn't have leased it, conventionally; the thinking then was to lease for a charge of so much a month, flat. If we did that, people who really used the machines very heavily would not have been charged enough. On the other hand, an average monthly lease price would have been too high for many other people.

So trial and error, and some thinking, led to the concept of pricing for use, which was revolutionary at the time. Again, I don't want to say it was my idea alone. I was one of the guys who spearheaded it, but others were involved.

This pricing method enabled the company to get the money it needed for expansion?

Yes. You see, when that first copier was introduced in the marketplace in 1960, Xerox had been developing xerography for about 12 years and had some xerographic products, but had grown only modestly.

We were only, I think, a $40-odd-million company in revenue. But we took off rapidly from that point, and certainly pricing and marketing were very important in the total picture.

Getting back to your company's willingness to take chances, I assume its entry into the computer field was a big risk.

Right.

Are you considering any similarly big ones?

We aren't considering major acquisitions such as we did in the computer business, where we invested over $881 million of capital stock in 1969 to buy Scientific Data Systems. But we're trying to make sure we're just as willing as ever to take major risks in product development. We have research and development expenses this year totaling about $127 million.

A number of our programs represent enormous risks. We have a product coming up where we'll have well over $100 million invested before we get one nickel back from the customer.

There always is great risk. You face the situation where, just as you're ready to announce your product with its $100 million investment, somebody else turns out to have done something different that's better, perhaps.

However, though I can try to sit here for the next 10 years and never make a mistake anybody can pin on me, in doing that I'd be making the biggest mistake of all. Because I wouldn't be taking any chances.

We're still willing to stick our necks out.

For a long time, Xerox was virtually alone in the nonsensitized paper copying field, but now you have a number of competitors. How much does that worry?

Well, we had the first plain-paper copier, as we call it, and to date, the only real competition we have had, with some minor exceptions in Japan, is from IBM. They've been in the market since April, 1970, and while I'd say they are tough competitors, the impact on our revenue and profits has been very, very small.

There are other copiers out now, in Germany, and there will be more. But we think we will be very competitive. Over the next few years we will have a completely new product line which we call second generation xerographic equipment, the first of which is the Xerox 4000, introduced last year.

Your entry into the computer business has not been profitable so far?

No.

When do you see profitability?

I don't know, frankly. Not for a couple of years, anyway.

What share of the computer market do you eventually hope to have?

That's a difficult question, because our whole product planning as we move through the '70s is to bring about an integration of computer technology with graphic technology, and as we do this we won't draw a distinction between the computer product and the copier or graphic product. We'll be talking about one overall market.

It clearly was not one of our objectives to take on IBM head-on in computers and try to say we're going to have half of their market share, or a quarter, or anything else.

And obviously, IBM is moving in the same direction we are, from a different vantage point. They're trying to move from a preeminent position in digital communications into graphics just as we're trying to go from a strong position in graphics into a strong position in digital communications.

The product lines are going to blend as we go down the pike.

Could you give us your current estimate of the rate of your company's growth?

We're planning an annual growth of 15 to 20 per cent over the next five to seven years. We can't see a limitation on growth, since business in both developed countries and undeveloped countries is growing very fast. Last year, for the first time, over 50 per cent of our pretax profits came from operations outside the United States.

I understand there's quite a bit of humor in the executive offices at Xerox.

We try to have humor here. I'm a practical joker.

For example, some years ago we were having a hundred very important government customers come to a seminar in Los Angeles. I was invited, but I couldn't go, so I was asked to videotape a message.

I did it, from a script. Then I decided to have some fun with the guy who was to run the seminar—an old friend of mine, in the company a long time.

So I taped a second message, just off-the-cuff. I started by thanking the government representatives for coming. But then I went on to really insult them, saying: "We're very pleased to have you here, but we're also concerned, as a big taxpayer. You guys waste so damned much money. And you don't know how to develop your products in the military."

I won't go through the whole story. But we sent that to Los Angeles and they showed it to this guy who was running the meeting and he nearly had a heart attack before they set him straight.

You were born in Nova Scotia and, as a Canadian, served in the British Navy in World War II. How did that come about?

Well, I was interested in going into the carrier end of the business—to be a flier. Canada had no carriers, and the only way was to join the British Navy.

I never did become a carrier pilot. I was washed out because of poor depth perception.

So what did you do in the war effort?

Practically nothing. I was a charge on the British taxpayer. The only thing I can say is that the Royal Navy only paid me two and six a day, which in those days was a little more than half a dollar.

What led you to move to the U.S. a few years after the war?

Well, I'd gone through law school and I was clerking, as we had to in Canada for three years, in a very good corporate law firm in Toronto. The head of the firm advised me that I really should have a knowledge of finance and accounting—that they did more business than law.

So I went to Harvard Business School and took finance and accounting, and then I decided to stay in business. As a matter of fact, I was fairly sure I'd rather be in business before that.

I went back to Canada for a year and a half after I graduated—I was a chemical salesman in Toronto—and then decided I wanted to go back to the United States because I just didn't see the opportunities I wanted in Canada.

Do you look for any of your five children to follow your choice of careers?

I hope they won't. I would like my sons to do what they want—it will be their decision—but if they asked my advice, I would say: "Try to have as little comparison as possible in your life with mine."

If they go into business they'll say to themselves: "Well, my father became the head of a great big company. When did he make his first million dollars? How about me?"

I've had a very good career, but Xerox happened to be the right place at the right time. I'm not unmindful that there's a lot of luck and timing in life.

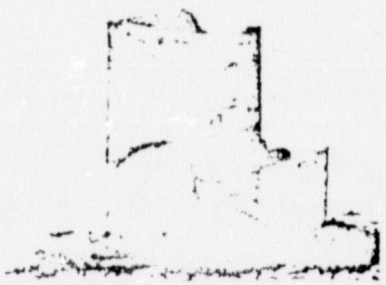
I didn't follow in my father's career. He was a professional engineer, and I'd hate to be an engineer.

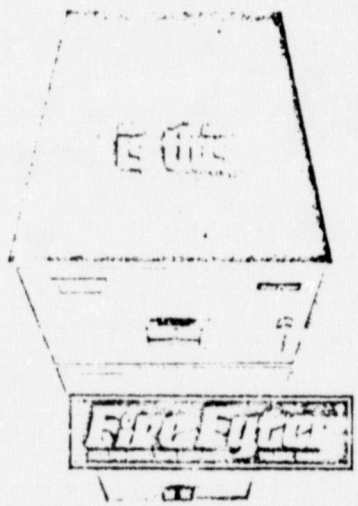
Has any legacy from your father been particularly important in your career?

My father made me very independent. He was reasonably well-to-do by Nova Scotia standards, but when I started at college he called me to his office one day and said:

"I've got four children and a little bit of money and when I die you'll divide it equally. I can pay for your tuition. But I think it's very important to be able to stand on your own two feet. So you can go to college anywhere you want—as long as you want—but you're going to be on your

The alternative to this...





Every four minutes, day and night, fire strikes another business. And most of the victims are severely crippled (or finished for good) when irreplaceable records are cremated in ordinary steel files. Don't gamble. Keep your records in Meilink Fire Fyter Files with patented Thermo-Cel insulation. They'll protect your records through a blazing inferno. Call your Meilink Dealer now. Check Yellow Pages under "Safes-Meilink".

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Lessons of Leadership: C. Peter McColough *continued*

sible for your tuition. You'll work in the summertime, but that probably won't bring in enough, so you're going to finance your education with a note that I'll endorse."

I'd never seen a note before.

He said: "You go over to the Royal Bank of Canada and as long as you want to go to college, I'm not going to have any restrictions on you. You can borrow what you need."

Well, to make a long story short, I didn't need too much, though I didn't stint on my living. When I finished Harvard Business School in 1949, I owed the Bank of Canada $7,500. And I paid it back.

I don't know if I'll do that with my kids—it's more expensive to go to college, now—but I think it was a great system and I never resented my father's attitude. He could have given me the money, and I think it was harder for him to say I had to borrow it. He did help me to the extent that his name was good for the endorsement, but I never owed him for my education.

You've said that your personal effort at Xerox is no longer a matter of making money. What is it, if not that?

Well, it's the challenge. It really is pretty meaningless to me whether

Good Fortune, Private and Public

An individual investor who has made a fortune in Xerox stock tends to be reluctant to talk about it for public consumption. It's a matter of privacy—and of being spared annoyance of one sort or another.

The cab driver mentioned at the beginning of this article, for example, does not wish to be identified. And he is not the only one.

John H. Dessauer, retired Xerox executive vice president whose book, "My Years With Xerox," was published in 1971, says a number of people have told him of making huge profits on modest investments in the company. They had bought stock early and held it over the years, opening new ways of life for themselves and their families.

None of them are anxious for the world to know who they are.

One investor who isn't loath to discuss a success in Xerox is Hulbert W. Tripp. But he wasn't investing for himself.

Mr. Tripp, who retired more than a year ago as vice president for finance at the University of Rochester, put some $200,000 of university funds into the company (then still known as Haloid) in 1950. The investment, he recalls, "was [illegible] we called our funny money account—funds we'd set aside for speculation on unusual things."

What happened to that "funny money" brings broad smiles to faces at the University of Rochester. It still has Xerox stock worth some $145 million, says Mr. Tripp, after realizing another $34 million from sales of Xerox shares.

This bonanza has helped make possible major increases in enrollment and facilities at the school (total endowment: $560 million). Not only has there been the direct benefit from so profitable an investment, Mr. Tripp says, but the evidence "of good money management" by the university has brought in many donations.

Is Mr. Tripp proud of making that judicious investment in 1950?

"If I deserve credit for anything," he says, "it's having had enough guts to hold onto the stock all those years—through good and bad."

Is Mr. Tripp, a member of the Xerox board of directors, familiar with individuals whose investments have similarly prospered?

"Well, most of them have been inside the company. There are some others, but people have a tendency not to hold on, in a case like Xerox's, when the stock starts going up.

"There's my house, for example. No $20,000 mortgage on it anymore.

"But selling some of my Xerox stock to pay it off cost me, in the long run, $1 million."

I die with more money than I'm worth today. I don't even know how much that is, though it's millions of dollars. In the first place, the government will take most of it, and also I'm not at all convinced you do your children any great favor by leaving them a lot.

But I'm a competitor by nature. I love to win. I hate to lose. I think that's the fun of it. I hope that when I die or leave this company I'm worth three times or four times as much – not because of the money but because otherwise the company won't have done very well in the meantime.

And I really don't need the money. I can't spend what I've got now and I don't try to. I suppose if you're making $5,000 it's very important to make $7,000 so you can have a car. But you quickly realize you only need so much food, and you can only wear so many suits. Unless you want to join the jet set or something like that—impress people—there's really a limit to what you can do.

The guys who have led Xerox have had a drive to make it a great success, but it was never so they could become wealthy personally—though they knew that if they did the job they'd become wealthy.

The inventor of xerography, Chester Carlson, gave almost all his money away before he died. Joe Wilson gave the bulk of what he'd made. The drive was to try to build something; the money really was scorekeeping.

You were quoted some time ago as saying you give 30 per cent of your income to charity. Is that still the case?

I don't like to talk about it, but I do that much and a little more.

Mr. Wilson was an active Republican and you were a Humphrey delegate at the '68 Democratic convention. Are such political differences typical in your company's upper echelons?

We try to encourage everybody to be active politically, but we have no interest in whether they are Republicans or Democrats or even socialists. I would say we're pretty well split here. And I think that's the way it should be. I would not want the company to have a particular political flavor.

Do you have a philosophy about the type of life a businessman should lead?

I'm going to sound like I'm moralizing, but, well, I think it's important to lead a balanced life. If you don't, you can get in trouble.

When I was young, I never had much question that I could earn money, though I was not wealthy to begin with, by any means. But I always had a fear that I might wake up some day at 65 and have all the money in the world—and that's all. I was very mindful, growing up in the Thirties, of the guys who jumped out of the windows in Wall Street when they lost their money.

Their whole life was to make money and their life was over when they lost it.

Well, that's not the way I think. While I like my job, I really don't make it my whole life. I'm not even sure it's the most important part of my life.

I'm very close to my family. I do a lot of things with my boys, my daughter, my wife—sailing, skiing and so on. I try to balance my work with vacations; I take a lot of vacations, adding up to at least six weeks a year.

I find that you can't always be second-guessing yourself when you have a lot of responsibility. I cut myself off completely when I'm on vacation.

And you know, you keep your balance by having other interests. I'm on four university boards, and there are other outside activities, many of them.

My philosophy in life, really, is that all you can do is the best that you're able to do because of the brains God gave you. In the time that's available—which is never enough for anything.

And if you can say to yourself, "I've done my best," that's all you can ask of yourself. END

REPRINTS *of "Lessons of Leadership: Part LXXXVIII – C. Peter McColough of Xerox Corp." may be obtained from Nation's Business, 1615 H St. N.W., Washington, D.C. 20006. Price: One to 49 copies, 35 cents each; 50 to 99, 30 cents each; 100 to 999, 17 cents each; 1,000 or more, 14 cents each. Please enclose remittance with order.*

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REMARKS BY JOSEPH C. WILSON
AT THE INTRODUCTION
OF THE NEW XEROX 2400 SYSTEM
OCTOBER 14, 1964

It is indeed a pleasure to be with you here today. As I think you all know, we are introducing our newest major product -- the ninth in the line of xerographic equipment we have developed within the last 15 years -- and we are doing so in three cities -- in Chicago and Washington, as well as New York. These are the first models of a revolutionary reproduction system which will be available about a year from now.

Ladies and gentlemen, you are about to see a giant step in the evolution of xerography -- an art that was born in Chester Carlson's mind about three decades ago when he invented the most important new imaging system since the birth of photography itself, because he wished for just such a process: one that could easily and quickly reproduce multiple copies from any original on ordinary paper, that operates with no fuss or liquids so that it can be located in any office, that is so automatic that it requires no special skill to operate, one that makes impressions so cheaply that it is almost a device for printing.

A little less than three years ago in a talk to the New York Society of Security Analysts, I tried to convey the full significance of this extraordinary new way of making images. Here is a quotation, "Xerography subtly combines the attributes of photography and printing. It makes pictures of anything by light, electrical signals or other forms of energy, but it makes those pictures permanent by transferring them to ordinary materials just as printing does. If it were speeded up substantially, a perfect marriage of photography and printing would result requiring, for the first time in the history of man, no need for a reproducing master of any kind, no type, no plate, nothing but the subject itself. Please think through

the implications of this." End of quote. This new 2400 system is the next step toward this vision.

I'd like to take this opportunity to introduce the star of our show before I say anything more about it.

BRIEF DEMONSTRATION

Before we demonstrate again, when you'll have an opportunity to inspect it closely, I would like to say a few things about where we feel the 2400 fits into the scheme of things and what we think it means to the future of Xerox.

It was just about five years ago that we first met some of you who are here today. We were in New York to introduce the 914 Copier. That system, as it turned out -- and, as I'm sure you all know -- completely revolutionized what was then known as the office copying field. There had been nothing like it. It was the first system that could produce multiple dry copies automatically, in seconds, on ordinary paper, at low cost. This system more than doubled office copying and started it on an ascent as steep in rate as any in the business equipment world. Then, just over a year ago, we introduced our second successful entry into that same field -- the 813 Copier, designed for decentralized, lower volume copying. It, too, is greatly expanding graphic communications, our chosen field.

This year we think nearly five billion xerographic pictures, for that is what they are, will be made here in North America on our office copying systems. I call them pictures because xerography, of the sort we emphasize, is essentially an imaging process like photography, except that the image is recorded temporarily on a selenium drum instead of on a piece of film before it is transferred to paper. It is a system that requires sophisticated optics. Lenses. And light, of course. This figure is startling when you consider that the combined sales of Camels and Lucky Strikes in 1963 were less than 5 billion packs.

Five years ago the 914 started a revolution in the handling of office paper work. Today, we think, marks the beginning of a second revolution in the handling of documents. This product will stimulate

new thinking about ways to handle paper in offices, plants, libraries, government agencies, laboratories, and on and on wherever man works. There has never been any so called master or intermediate or stencil connected with xerography, and now we offer a system of high-speed document reproduction directly from the original. This conveys some idea of what I mean by the second revolution in office paper work. Until today there has not been a process that could eliminate the distinction between high-volume office copying and short-run duplicating. Duplicating by definition, requires an intermediate master of some sort. Now, down goes the already battered barrier. Printing and imaging are now wedded.

We do not know what to call this system. It is faster than copying. It is simpler than duplicating or printing. It is a new species.

Let me take just a couple of moments to say something about how Xerox came to be, and where we think we are going. I'd like to say, with considerable humility, first of all where we are today, and relate it to the past. Everyone, I guess, grants that we occupy a strong position in the dynamic copying market. Our responsibility, of course, is to strive to stay strong there, and to enter other promising fields.

In copying there seems to be little question but that new entrants are choosing dry copying rather than wet or moist processes. Electrostatic copying, in one form or another, is increasingly the preferred way to document reproduction , and we firmly believe that will continue to be the direction for many years.

But we aspire to be in more fields than copying. When we think of our future, we think in terms of such words as "world leader in graphic communications".

To some of you that phrase may be meaningless. To us it holds forth a challenge that is implicit in all the facets of a definition of the phrase offered by THE COMMERCIAL AND FINANCIAL CHRONICLE this past summer. Here, in essence, is what Patrick J. McCool, writing for that publication, said:

> "Graphic communications, in a broad term, includes literally the entire spectrum of communications in a

graphic sense: the formulation, reception, transmission, recording, storing, retrieving, processing, copying, or presentation of any meaningful images - words, other symbols, maps, charts, graphs, diagrams, pictures. This would include virtually all forms of commercial printing, facsimile transmission, computer print-out, data storage and retrieval (particularly in the microfilm area), printed circuitry...the list is endless."

Obviously, the field is a vast one. Man's fund of information is growing at a staggering rate, faster than his ability to digest it. Realize, with me, that much of it gathers dust in one library or labratory or another for want of a way to retrieve that knowledge, cheaply and in a hurry. Too often it has been acquired for a specific purpose, then filed, only to be researched painstakingly again, a shocking waste of man's creative endeavors.

We have said before and I'd like to say it again and again, that things have to be written to be known. And this is the field in which Xerox is pioneering.

I tell you this only to set the stage for your understanding of another of our principles. This has to do with the new services that we seek to create. Our goals are lofty, but attainable.

You perhaps have read that our corporate objective is to achieve an average annual growth rate of at least 20 per cent in revenue and earnings. We have also said that Xerox intends to undertake no major ventures, either those coming out of our own research efforts or through acquisition, that do not promise to return to us about 30 per cent before taxes and 20 per cent on our investment.

These, as I have said, are goals. It does not mean that we will always achieve them in any given year. Nor does it mean that we may not exceed them in years that are particularly favorable. As a matter of fact, we have exceeded them by a large margin recently. These excesses, for us, are mental reserves, surpluses to be used during the time of inevitable pauses.

The stated goals simply mean that the directions toward which Xerox moves must meet these criteria. All of our proposed plans are measured by these standards.

Our new system, the Xerox 2400, I am happy to say, appears to meet these criteria, although we are hazarding a projection now about a service that will not be delivered into the tigerish market place until the fall of 1965. We are reasonably confident about our ability to achieve the objectives of the Xerox 2400 because it truly is a product that is a quantum jump ahead of our, or others', products, at least these of which we are aware. It is a product that approaches the entire field of short run and systems reproduction from a position that suggests that it will indeed "leapfrog" the present market. Enough background.

Some of you probably are wondering why we are introducing the Xerox 2400 almost a full year ahead of scheduled delivery.

During this past year there have been more developments in the document copying field than in any other recent period. Probably more than 100,000 copying and duplicating machines were installed this year. People are having difficulty in making wise choices regarding purchasing or renting of copiers, particularly our own 914.

We felt compelled to let people know that within a year there will be available to them a new system which will give service no other equipment can yet give; a system which we think may change their ideas entirely about document reproduction and thus, communications. There is another reason for showing you our system now, and that is so we may undertake, publicly, exhaustive field tests to help attain the best possible results next year when we deliver to customers.

That point leads naturally to the question of pricing. The final pricing for the 2400 will not be determined for several months. However, we have in mind an innovation in pricing which will make costs to the customers comparable to present costs of copying when a few copies are made from an original, and comparable to other reproduction methods, such as offset, mimeograph, or spirit, as more copies are made from an original.

It stands to reason, doesn't it, that after we invest $40,000,000 in a system, before the first dollar of return, and after we show it to you today as a significant advance in the state of the art, the price of this service will be comparable wherever it has been designed to compete?

A word about the scientific and engineering skills responsible for the development of the 2400. We are justly proud of this accomplishment, not only because of the major road-blocks in technology which had to be surmounted, but because we were able to accelerate our original time schedule for development by more than twelve months.

When you saw that brief demonstration, the thought occurred, perhaps, that the image of the original document is retained on the xerographic drum and that the same impression is made over and over again. The high speed of the system would lead one to that conclusion, but the truth is that each copy is made from a new image of the original. This mode of operation helps maintain consistent quality. To do this, our scientists had to solve the problem of increasing the speed of the photoconductor to three and a third times that used in the 914 Copier, and of increasing its useful life to a minimum of 100,000 copies. The innovation of a new and efficient lens and optical system, with its oscillating mirror and curved glass platen to reduce the scanning time of the original, was a major accomplishment. So, too, was the development of heated roll fusing, high speed vacuum paper transport, the fail-safe features which are built into the system, and many others. You will better appreciate the significance of these technical engineering innovations when you examine the 2400 at close quarters.

A very deep and real part of our policy at Xerox is that the new products, or services we develop, must meet important needs of society. And those needs must be met economically, of course, under our competitive system. We are not investing money like this in products that are just a <u>small step</u> ahead of present products, even our own. We are taking, we believe, a very long leap ahead. We also try to develop those things that will satisfy unspoken; <u>perhaps unrecognized</u>, needs, if possible. We seek to recognize demands <u>not yet identified</u> by most others. We try to create services that have not before been provided to business and government. The 2400 is one of a lengthening series.

Never before, literally <u>never before</u>, has there been <u>any</u> way to repeat messages on paper so rapidly, so conveniently, so cheaply, without first preparing some kind of intermediate from the original. In some cases, these intermediates are retyped from originals. In

some cases, they are photoprinted or stencils are made, or plates are developed. There has always been intermediate work. Here, for the first time, man is on the threshold of using light, instantaneously, to do this intermediate work for many, many printing-like applications.

The copying market, it is estimated, involved nearly nine billion impressions a year in North America, a market of about $470 million in equipment and supplies alone, and it is probably growing at a rate of about 20 per cent a year.

Now while remaining in copying, Xerox is entering a much broader segment of the document reproduction market which we estimate accounts in North America for some 330 billion impressions a year and amounts in dollars to about $3 and one half billion dollars annually, if one includes the users' cost necessary to produce the impressions by present methods. Note this point carefully. The Xerox 2400 system will greatly reduce the cost to users who have proper applications and yet Xerox' income per copy will probably be more than competitive processes.

Bear in mind that the very size of the 2400's potential requires heavy expenditures to put it over. And since it will be rented at first, our results in 1965 and 1966 will be held back because of it.

Do not expect the rate of profit growth, year after year, that we have experienced in the recent past. It is greater than our goals. We will have plateaus, or at least the upward slopes may be gentler. We may have disappointments. The very weight of Xerox' success in '62, '63 and '64 requires that we accept heavier burdens now so that the longer future will be better assured.

Don Clark, our vice president in charge of advertising, with the assistance of Miss Robin Rickhoff, will tell you more about the Xerox 2400.

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EXHIBIT 9

Corporation

XEROX NON-TECHNICAL
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For Release in Afternoon Papers of
Monday, January 17, 1966

XEROX ANNOUNCES NEW

COPIER/DUPLICATOR

720 is Fourth New Machine Introduced by Company in Past 15 Months; New Pricing for 420 Also Told

ROCHESTER, N.Y., Jan. 17 -- Xerox Corporation today announced development of a copier/duplicator which makes copies at the rate of 12 a minute for a meter cost as low as one cent per copy.

A variation of the 914 Copier, but nearly twice as fast, the new Xerox 720 is named for its hourly copy output rate. It will be ready for delivery in mid-1966.

The 720 is the fourth copier/duplicator to be added to the company's expanding family of dual-purpose equipment in the past 15 months.

The new unit produces copies on ordinary paper directly from the original without the need of a master or stencil, as do all Xerox machines. It can be programed for a specific number of copies up to 20, or an unlimited run.

(More)

The 720 utilizes three billing meters which provide for a sliding-scale pricing plan. The first three copies from an original are metered at 4 cents each. The fourth through tenth copies are metered at 2 cents, and successive copies at 1 cent each.

Felix G. Evangelist, vice president of marketing for Xerox, said that details on the 720's monthly pricing schedule will be announced before the unit becomes generally available in mid-year.

He added that, "The higher copy output speed of the 720, plus its declining cost per copy with increasing run length, offers medium-to-high volume users a totally new system that is convenient and economical for both fast copying and short-to-medium run duplicating."

The 720's rental agreement, as with all Xerox copiers and copier/duplicators, will include a 15-day cancellation clause. This enables a user whose copy requirements may change to exchange his unit on short notice for one more suitable to his operation.

New 420 Model

At the same time, Evangelist revealed that in February the 420 Copier/Duplicator will be available with the same three-meter pricing as the 720. Current users of the 420 may convert from the present two-meter pricing plan to the new three-meter plan by having Xerox install a third meter on their units.

The three-meter 420 will have a monthly use charge of $20 and a minimum monthly meter billing of $200.

720/3

"Because of the widely varying needs in both daily volume and the numbers of copies required from each original, businessmen are continually looking for more product flexibility and increased efficiency in office reproduction equipment," Evangelist said. "The new 720 and the pricing plan for the 420 are further examples of our efforts to give them just that."

Family of Machines

Although the 720 is the fourth in a series of Xerox copier/duplicators, it is the sixth member of the company's growing family of office reproduction machines.

The other copier/duplicators are the 2400, introduced in October of 1964; the 420, brought out last summer; and the 330, introduced less than two weeks ago (January 5). Each is named for its hourly copy output rate and has a sliding-scale pricing plan for users requiring multiple copies from an original.

The console-size 914 and desk-top 813 are the senior members of the Xerox family, having been introduced in the early 1960's. Named for the maximum size of copy reproduced, both units are intended for applications where only a few copies of each original are required.

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EXHIBIT 10

From
Xerox
Corporation

XEROX NO... TECHNICAL
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RECEIVED
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A. R. McCARDELL

For Immediate Release

NEW XEROX MODEL IS FASTEST YET, A COPY A SECOND

NEW YORK, May 15 -- A new xerographic device that rivals black and white offset duplicating in quality, yet produces a copy a second on ordinary paper without a master, was introduced here today by Xerox Corporation.

The new machine, the 3600-III, was described as the most significant advancement in xerography since the company perfected its 914 copier in 1959.

In demonstrations for the press, the new machine produced crisp, spotless copies directly from originals at the rate of 60 a minute. Its duplication of photographs and solid areas was comparable to most newspaper reproduction.

Company officials said the 3600-III is "designed to increase our participation in an ever-expanding duplicator market."

(More)

3600-III -

Manufacture and marketing of the new machine will be the responsibility of the company's Business Products and Systems Division, headed by Raymond A. Hay, a Xerox group vice president.

First deliveries will begin this week. Plans call for distribution to all major metropolitan areas by August.

Xerox officials said the 3600-III's output quality and speed are designed for reports, proposals, sales letters and other communications where sharp images and smudge-free appearance are important.

The 3600-III is equipped with a 10-bin sorter. The machine will permit many firms to do away with bulky duplicating equipment and the need for storing quantities of special paper and master stock. It duplicates on 8 by 10 1/2-inch, 8 1/2 by 11-inch or 8 1/2 by 13-inch paper.

Monthly rental is $600. This includes a $200 use charge and a monthly meter minimum of $400. Price per copy will range from 4 cents to 6/10ths of a cent, depending on monthly volume and run length. In a run of more than 10 copies, for example, all copies above the tenth are billed at 6/10ths of a cent.

When monthly copying volume reaches 50,000, all additional copies during the balance of that month are billed at 6/10ths of a cent.

-XXX-

AJM68513

For additional information on this subject, phone

Robert L. Stearns, Rochester office, X-4265

XEROX

For Immediate Release

THE XEROX 3600-III -- WHAT'S IT ALL ABOUT?

In part, the answer to that question lies in numbers.

In its April 15th issue, Data Systems News estimated that during 1967, more than 275 billion paper copies of business communications were produced in the United States. These copies were made in a variety of ways -- xerographically, on other copiers, offset duplicators, and copier-duplicators.

Chester Carlson, struggling to get one decent copy from his invention in a makeshift laboratory 30 years ago, might have been defeated by the enormity of such volume. Neither xerography nor the communications explosion had become reality, however, and Carlson persisted. In time, xerography was born.

Xerox Corporation has since developed a number of machines to meet the needs of those who wanted this easy-to-use process to solve a variety of communications problems. Today's line of Xerox equipment ranges from desk-top office copiers to systems that simultaneously reduce and duplicate a computer's output.

(More)

Backgrounder/2

Most people don't realize that a Xerox machine is an extremely sophisticated instrument. This is understandable, because the company has painstakingly translated laboratory complexities into equipment that takes the abuse of every-day business life and operates easily -- at the push of a button.

Man seems to have an insatiable capacity for creating new jobs for a reliable tool or principle. What has been done with the wheel--and what is yet to be done--tests both memory and imagination.

So, too, with the principle of xerography: Users have asked that xerography do more for them--and that it do so better and faster.

The latest development to meet these challenges is the Xerox 3600-III. It answers the demand for a device that produces black and white copies which rival the output of offset duplicators in quality. Yet, it eliminates the downtime, equipment, and special materials most offset processes require to create a master, set up the machine, adjust ink-flow and other tasks.

(More)

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Backgrounder/3

How Xerography Works

Xerox machines take a picture, in effect, of documents to be copied. This "picture" or image is recorded on an electrically charged drum instead of film. Negatively charged toner ("dry ink") is cascaded over the positively charged drum. Since opposites attract, the toner clings to the drum. Toner particles gather in greatest numbers over the charged image. Where there is no image, toner falls off. Next, as positively charged paper passes through the machine, it draws the toner image from the drum. The dry ink is fused into the paper by heat, and the copy emerges from the machine.

To speed up this process--to produce a copy a second--and to improve quality, Xerox engineers introduced in the 3600-III a number of automatic helping hands in the form of components and techniques. These include:

1. Illumination control.
2. Concentrating the charge in image area.
3. Selective fusing.
4. Brushing unfused toner from the copy.

Backgrounder/4

Illumination Control

With the drum rotating at full speed, engineers had to assure that the strongest image possible was imposed on the drum. The amount of light illuminating the document can vary with illuminating lamps' warm-up periods, power changes, and age of the lamps. In the 3600-III, a light-sensitive photo cell checks illumination levels for every copy.

If the light level is too high, the photo cell signals the lens iris to reduce its aperture and admit less light to the drum. Conversely, if light level should drop, the sensor signals the lens iris for a larger aperture, thereby admitting more light.

Drum Charge Concentration

Another step in getting the image onto the drum involves distribution of the toner onto the charged areas. To be sure that the toner meets its appointment, so to speak, with the fast-spinning drum, a greater electrical attraction is provided. An electrode with the same curvature as the drum is placed close to the drum, concentrating the charge on the image area. Negatively charged toner, poured between the drum and the electrode, races into contact with the positively charged image. This is the key factor in the 3600's ability to reproduce half-tones and solids.

(More)

Backgrounder/5

Selective Fusing

Transferring the image and toner from the drum to the copy paper at the 3600-III's speeds required improvements in the method of fusing the "dry ink" into the paper.

A basic principle is brought to bear on this problem. A group of objects, close together, can absorb more heat and share it. This is the reason cattle huddle together in cold weather. A lone object, on the other hand, will absorb heat, but radiate it away more quickly. In the 3600-III, the concentrated particles of toner in image areas absorb heat and radiate it to their neighboring particles. The mass becomes molten and flows into the paper instantly. Where there is no image to be copied, toner particles are separated, give off absorbed heat immediately, and ride loosely on top of the paper. This is called selective fusing. Two quartz lamps supply the heat necessary.

Copy Brushing

To get rid of the loose, un-needed particles, engineers decided that a new broom sweeps clean. A 14-inch wide cylindrical brush built into the machine scrubs every copy clean of loose toner particles, leaving only those which have melted into the paper. The result is an image on clean, white background. It is sharply defined, jet-black, and will last as long as the paper.

(More)

Backgrounder/6

In all, some 200 engineers and scientists worked on this project for more than four years to bring xerography to this stage of its development. The combination of these new techniques with the basic principles that made the first xerographic device a commercial reality is the company's answer to latest market demands -- the Xerox 3600-III.

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AJM68510

For additional information on this subject, phone

Robert L. Stearns, Rochester office, X-4265

E X H I B I T S 11, 12 and 13

to Memorandum in Support
of SCM's Rule 42(b) Motion

E 859

Exhibits 11, 12 and 13 to Memorandum in Support of SCM's Rule 42(b) Motion
Exhibit 11

DESIGNATED
FILE IBM
CROSS REF

J. C. Wilson

April 20, 1964

C. Peter McColough

IBM

Personal and Confidential

You mentioned to me, of course, your conversations last Friday in New York with Jim Birkenstock. I have just read also Sol's memo to you of April 13th.

I would very much endorse the suggestion that we have an outstanding legal firm study the situation and give us their opinion. This could be very useful. I can, however, see the present danger to the selenium patent structure described by Birkenstock.

Furthermore, should we at some point have to open up the selenium patent structure to others, I would think that we would want to do this on a selective basis perhaps, if this were at all possible. IBM would be one of the last companies I would want to see us put in competition with Xerox.

file

CPMcColough/mjj
cc: S. M. Linowitz
J. H. Dessauer

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XEROX COPYING AND DUPLICATING

BUSINESS PRODUCTS GROUP
1971 LONG RANGE PLAN

The quality risk is greatest in the duplicating environment. Our perception is that short run offset duplicating quality is generally declining and that Gamma is sufficient to compete. However, customer control of offset output quality is possible, and control of Gamma quality is more difficult.

Existing competition and new plain paper devices will increase the difficulty of sustaining our position.

During the forecast period, domestic competition will increase dramatically. Electrofax and Dual-Spectrum (3M) will grow through 1975 and then begin to level off. Despite the fact that these devices will offer higher quality, greater throughput and more features, the average copy volume of these machines will decline because of a remaining basic inferiority to plain paper copiers.

The primary competition for Xerox will be competitive plain paper copiers. Using both selenium and organic photo-receptors, competition will be felt from a large number of foreign and U.S. organizations. The most potent competitor will be IBM. Between now and 1973, we expect two additional product introductions, including a 3600-type device. These products might be joined by a Gamma-type device in the late 70's. These products, in the hands of a sales and service force with the size and capability of IBM/OPD will prove to be most formidable competition.

Next to IBM, the Japanese as a group are the most potent competitor. Ricoh, in particular, must be considered a formidable adversary. Their zinc oxide machines, marketed through Savin and A.B. Dick, already cancel more Xerox copiers than 3M. They have already announced their first plain paper copier, which is scheduled to be marketed in Japan this year.
3M has always been a strong competitor. However, their total emphasis on thermography may lead to a deterioration of their position unless VHS moves to a workable, commercial stage or they have a different photoreceptor as backup for a plain paper copier.

In the duplicator environment, traditional non-automated offset is deeply entrenched but is slowly being replaced by automated "systems" offset that offers high productivity, low cost and some convenience. These automated devices will provide strong near term competition for both first generation duplicators (X 7600) and Gamma.

If the recent past is an indicator, the future of presently understood hybrids is uncertain. The XRDP, first introduced in 1967, has been unsuccessful although this has not prevented the subsequent announcement

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Exhibits 11, 12 and 13 to Memorandum in Support of SCM's Rule 42(b) Motion

Exhibit 13

Page 11 of Xerox's:

"ONE, FIVE YEAR PLAN

PATENTS AND LICENSING

1964"

FTC Exhibit 3-66A

the efforts to be fruitful; for developer materials, we fear it may be at least partly a rear-guard action.

Looking ahead, we expect that our patent position will be able to protect the "heartland" of our vital commercial interests, and that we will not have to compete against licensed competitors who are producing virtually our own machines. It is clearly established that licensees will be making xerographic machines employing zinc oxide paper, but we do not anticipate that licensees will be marketing machines employing selenium drums. We plan to continue to do a thorough job of patenting the machine structures and components and other products which we, ourselves, put on the market, and patent basic new technologies which will be incorporated in our own products. We expect to use the resulting patent protection to maintain a competitive edge over others. At the same time, we can continue to justify moderate effort in fringe areas which we, ourselves, do not commercialize, with the expectation that occasional royalty-bearing licensing arrangements will make this effort worthwhile and will, in addition, permit us to encourage other companies to employ valuable Xerox inventions which are outside our own commercial plans. The important benefit of such fringe area protection is the freedom it gives us to change our direction if the fringe areas come to appear unexpectedly valuable.

To accomplish these objectives, we expect to continue at roughly the same proportionate level of effort as we are now using. As a rule of thumb, we will have one attorney and supporting staff for a little more than $1 million of research and development effort.

XEROX TECHNICAL

E X H I B I T A

XEROX 1972 LONG RANGE PLAN
(Extracts)

E 863

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

EXHIBIT A

XEROX 1972 LONG RANGE PLAN

(Extracts)

TAB 1 STRATEGIC ISSUES

TAB 2 XEROX NEW PRODUCT DEVELOPMENT

TAB 3 XEROX CONTROL OF TECHNOLOGY

TAB 4 XEROX POWER TO CONTROL PRICES

TAB 5 XEROX POWER TO WITHHOLD NEW PRODUCTS

TAB 6 CARTEL ARRANGEMENT WITH RANK XEROX

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TAB 1

STRATEGIC ISSUES

Volume I

pp. 117-118

1. Strategy Case Market Share Objectives for Copiers/Duplicators

For copier/duplicator markets, the following market share (revenue) objectives have been established:

	1971	1976	1981
Decentralized (< 25K CPM)	47%	54%	56%
Centralized (> 25K CPM)	20%	31%	40%

ISSUE Do these levels of market penetration represent the most profitable long term strategy?

2. Staying Power of First Generation Copiers and Duplicators

First generation products are forecast to represent a major portion of total population over the planning period.

1st Generation Products	1972	1976	1981
Ending Population (000)	345	318	256
% of Total Population	89%	51%	31%

ISSUE Will these products remain viable throughout the plan period, in the face of improved products from ourselves and competition, and without severe price decline.

3. Systems Products Strategy (Facsimile, Information Processing, Computer Printing)

Strategy Goals	1972		1981	
	Revenue	Mkt. Share	Revenue	Mkt. Share
Facsimile	$22	50%	$ 213	47%
Information Processing	-	-	870	7%
Computer Printing	13	1%	300	7%
Total	$35	1%	$1383	8%

Revenue goals and development requirements are large, although market penetration is modest.

ISSUES
- What is the optimum strategy?
- Are management, technical and marketing resources now planned sufficient to [illegible]?
- Do current facsimile products and the Diablo printer provide a sufficient base for development of these markets?

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- Is computer printing a viable long term business opportunity given anticipated IBM counter strategy and expected shift to remote printing in the longer term?

4. Worldwide R&E and Manufacturing Strategy

ISSUES
- What is the best way to establish and effectively coordinate worldwide R&E efforts?
- What is the optimum manufacturing (sourcing) strategy for the broad array of products represented by the Plan?

5. Location of Operations in the U.S.

The long range plan makes no provision for ITG locations other than Rochester and El Segundo.

ISSUE Should longer range plans be based on expansion of the two current sites, or should we be preparing contingent plans for other locations? How would they be selected?

6. Marketing Organization for a Multi-Product Line Business

ISSUES
- What is the optimum structure of Regions, Branches, and support facilities?
- How many sales forces (i.e., product line dedicated salesmen) should we have?
- How can we increase the productivity of the sales and service organization?

7. Color Strategy

ISSUES
- What is the size of and rate at which the color market opportunity can be profitably developed?.
- Should we actively pursue the consumer market, and if so, how?
- Should we be doing more or less than planned?

8. Overall Growth Objectives

ISSUE Is an already large business organization capable of sustaining 20% annual growth over the longer term? Can historical profit margins be maintained as we enter new, highly competitive businesses without a broad base of proprietary technology?

TAB 2

XEROX NEW PRODUCT DEVELOPMENT

TAB 2a

Vol. I, pp. 20-21

The objectives are as follows:

	1971	1976	1981
Market Share (%) (Copies)	49%	54%	56%
Annual Revenue *($Mil)			
Strategy Objective	$685	$1423	$2358
Base Case	685	1398	1972

* Rental Revenue and Supplies

STRATEGY

Xerox now offers a full product line which serves the total customer spectrum from low volume to high volume, low run length to high run length. Yet, there remain gaps in our marketing effort, either due to insufficient product power or high costs, which are being addressed by the second generation products and the follow-on development programs.

In previous years, our business strategy was to bring to market new products as quickly as possible and to use these products in areas presently served by first generation products considered to be competitively obsolete.

Our present strategy is still to develop and test new products as quickly as possible. However, the competitive outlook has changed and our first generation product power appears greater so that the need to rapidly replace present products is not as great as previously thought.

Existing and second generation products, including Decoy, are expected to enable us to achieve the Business Area growth objective through 1975. In 1972 and 1973, the product power of the 4000 should enable us to reach a 53% market share which will be held with the advent of Decoy through 1975. In the 1976-1978 period, we expect to experience a small loss of share as the second generation product power continues to carry U. S. Operations. From 1978 on, our market share may drop rapidly as new products become necessary for us to compete with the new competitive equipment.

As indicated above, there are several sectors where additional product power will be necessary in the middle 1970's. A very large market opportunity also appears to exist in the low volume area and our second generation machines are too costly to fully service the low volume user requirements. If we are to grow and maintain competitive effectiveness, we must provide full attention to all the marketing segments in the environment. We must encourage new customers to enter in the low volume segments and other customers to grow and move upward through the volume bands.

The products or product concepts that are currently planned to fill the gap identified in the 1976-1981 period, between our Base Case and the Business Area objectives, are the following:

- SAM - a 500-2,000 CPM book copier under development at the Rank Xerox Development Laboratories in England, which utilizes SLIC technology. This product is targeted for introduction in the 1975-1977 period.

- PONC - this program, presently in the concept phase, is aimed at the lowest end of the market (0-1,000 CPM), and currently presents major risks with respect to product feasibility and targeted costs. December 1972 is the targeted for a technical and market strategy review of the program.
- Agate/Diamond - follow-on products or upgrades to the 4000 and DECOY respectively, which include features such as integrated sorting, multiple paper trays, roll paper feed (Diamond only), improved fusing and other technical advancements, including improved reliability. These products are expected in the 1975-1976 time frame.

Agate and Diamond will not only bolster the competitive effectiveness of the 4000 and DECOY against "systematized" competitive products, but will also provide back-up development in the event that the basic 4000 and DECOY programs cannot be adequately upgraded to serve the needs of the mid to late 1970s. Most important are the qualitative improvements of these products in terms of service cost reductions and the impact on profits and, equally essential, customer sensitivity to reliability. Additional improvements in both revenue and profit outlook will come from use of the added features of Diamond and Agate to enable the 4000, 3600, and 7000 products to remain in higher volume bands. We will be using products which are less costly to produce and service in lieu of the more expensive and technically complicated equipment.

The introduction of Diamond and Agate is not expected to obsolete the 4000 and 7000 products. Their populations will be maintained through strategic actions which will offer the customer a choice of features. The multiple product offering should increase our competitive effectiveness in an environment where many combinations of machines and features will become available.

During the latter half of the 1970s, Ardri will begin to enter the upper volume band (15,000-25,000 CPM) in the Decentralized Reproduction market. The impact of this high capability duplicator will be relatively minor, however, and the discussion of its attributes is undertaken in the Centralized Reproduction section. The Agate program will reduce even further the need to bring Ardri into this market.

Strategy Summary

The major elements of the Decentralized Reproduction strategy can therefore be summarized as follows:

- A slower new product build-up. The 4000, Decoy, and Altair forecasts show lower populations in their early years compared with the 1971 Plan.
- The offering of more reliable products and the attaining of correspondingly lower service costs in our traditional business area (1,000-25,000 copies per month).
- The marketing of the new products in higher copy volume and revenue segments than had been previously considered.

TAB 2b

Vol. I, pp. 75-76

XEROX
US OPERATIONS
INTERNATIONAL GROUPS

RESEARCH AND ENGINEERING

1972 LONG RANGE PL
VOLUME

DECENTRALIZED REPRODUCTION

- Develop first generation products improvement programs specifically aimed at improving reliability and reducing service costs to support the extended market life currently projected.
- Complete second generation products per existing plans.
- Accelerate development efforts for a non-xerographic, low cost small copier to address the market segment below 1,000 copies/month.
- Reevaluate second generation variant programs based on current market trends and technology developments.
- Develop technology strategies to provide broad direction for our core technology efforts, appropriate technology extensions for the low and high ends of the market and unique input/output features.

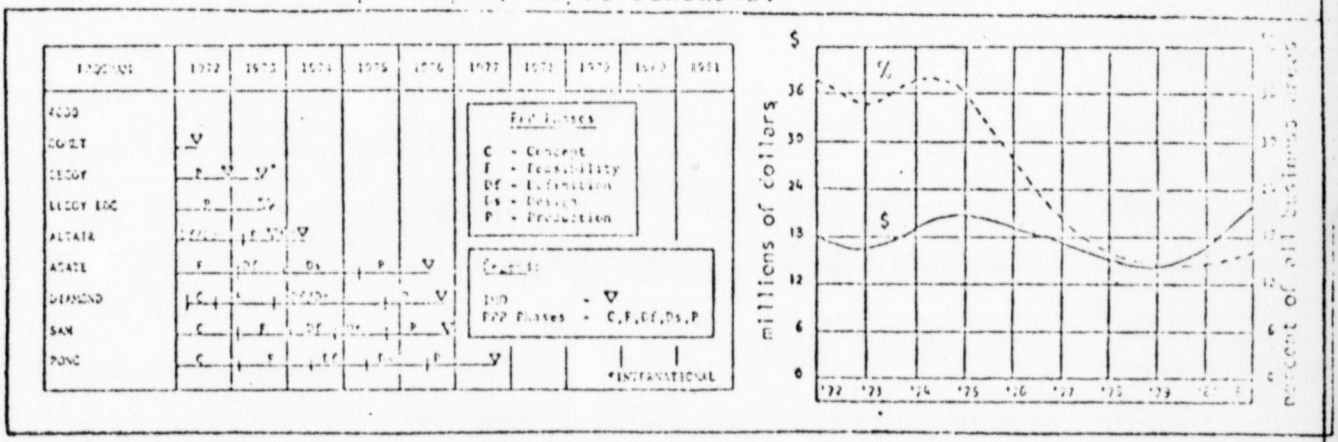

Figure 3 - Programs and Resources - Decentralized Reproduction

CENTRALIZED REPRODUCTION

- Complete development of our initial market entry - ARDRI - which extends the xerographic process in speed, quality and reliability and provides added features for customer perceived needs.
- Expand upon the ARDRI base processor with emphasis on quality, reliability, maintainability and further features developments, such as microimage blowback, automatic duplex, on-line compiling, stapling and stacking.
- Explore applications of new technologies which are currently in process including waterless lithography, extended range xerography, image buffers, matrix photoreceptors, and others.
- Develop upgrade proposals on the 3600/7000 products to assure their progression in the marketplace.

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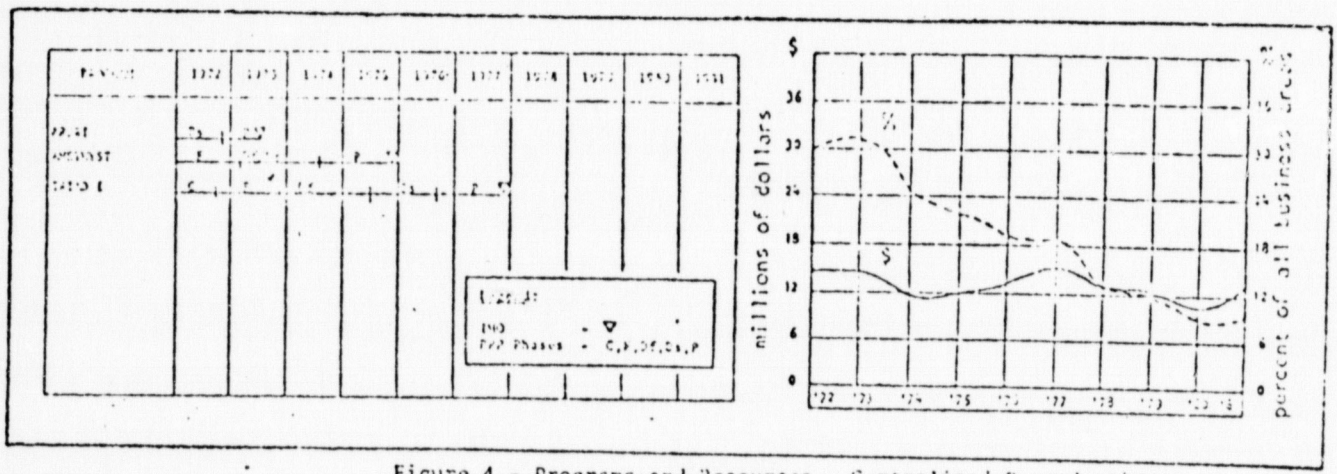

Figure 4 - Programs and Resources - Centralized Reproduction

COLOR REPRODUCTION

- Complete Epic I and II as the initial market entries addressing the functional color area.
- Determine the most suitable xerographic system to satisfy the identified short run color duplicator market. The Prism program concept studies are directed at establishing the technical approach.
- Explore various approaches to establish basic processes which could serve the pictorial color reproduction market. Current major efforts include extended range xerography, waterless lithography and PEP.
- Establish an integrated color technology program which will explore the wide range of technologies which may be utilized for advanced color products and in support of the currently projected products.

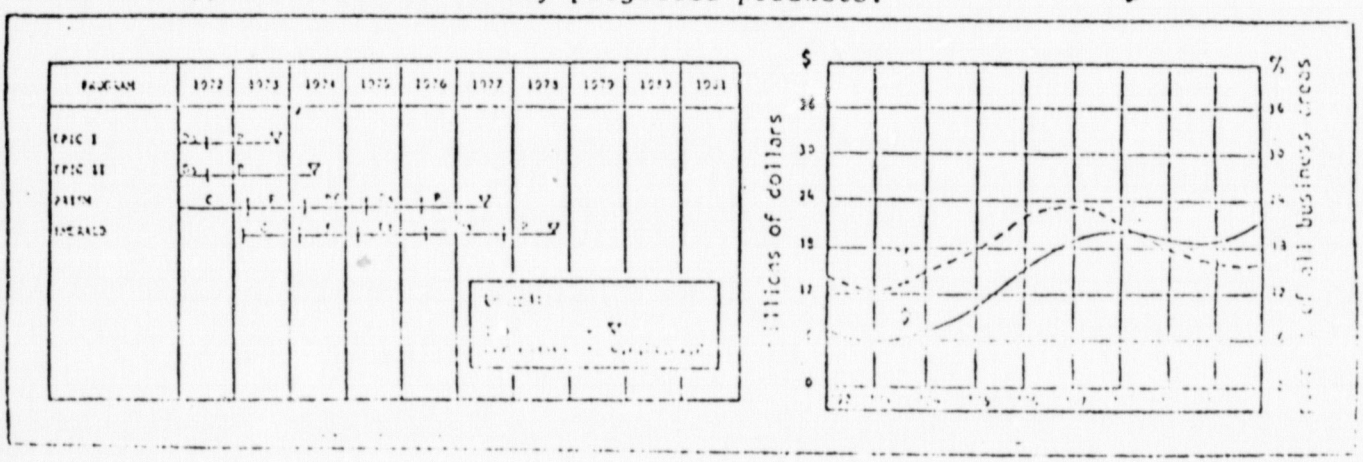

Figure 5 - Programs and Resources - Color Reproduction

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TAB 2c

Vol. II, Decentralized

Reproduction, p. 16

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Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

The following table shows our present copy volume share and our strategy for 1976 and 1981 compared to the Base Case Forecast.

COPY VOLUME SHARE

Copy Volume Band	1971 Actual	1972 Estimated	1976 Base Case	1976 Strategy Case	1981 Base Case	1981 Strategy Case
0- 1,000	12%	12%	12%	15%	11%	20%
1,001- 3,000	34%	34%	33%	40%	35%	40%
3,001- 5,000	47%	46%	50%	50%	44%	50%
5,001-10,000	64%	68%	69%	69%	59%	69%
10,001-15,000	72%	74%	70%	74%	58%	74%
15,001-25,000	53%	50%	53%	55%	37%	45%
Total	48%	50%	53%	54%	47%	56%
Revenue Share	47%	48%	53%	54%	47%	56%

With emphasis on the successful introduction of DECOY and ALTAIR, the upgrading of the 4000 and DECOY reliability and copy quality performance, and the development of AGATE, SAM, PONC and Diamond we believe that the strategy case for Decentralized Reproduction is attainable. With all planned products operating in the market, the Xerox copier/duplicator product line will serve customers in all parts of the Decentralized Reproduction environment as depicted in the following chart.

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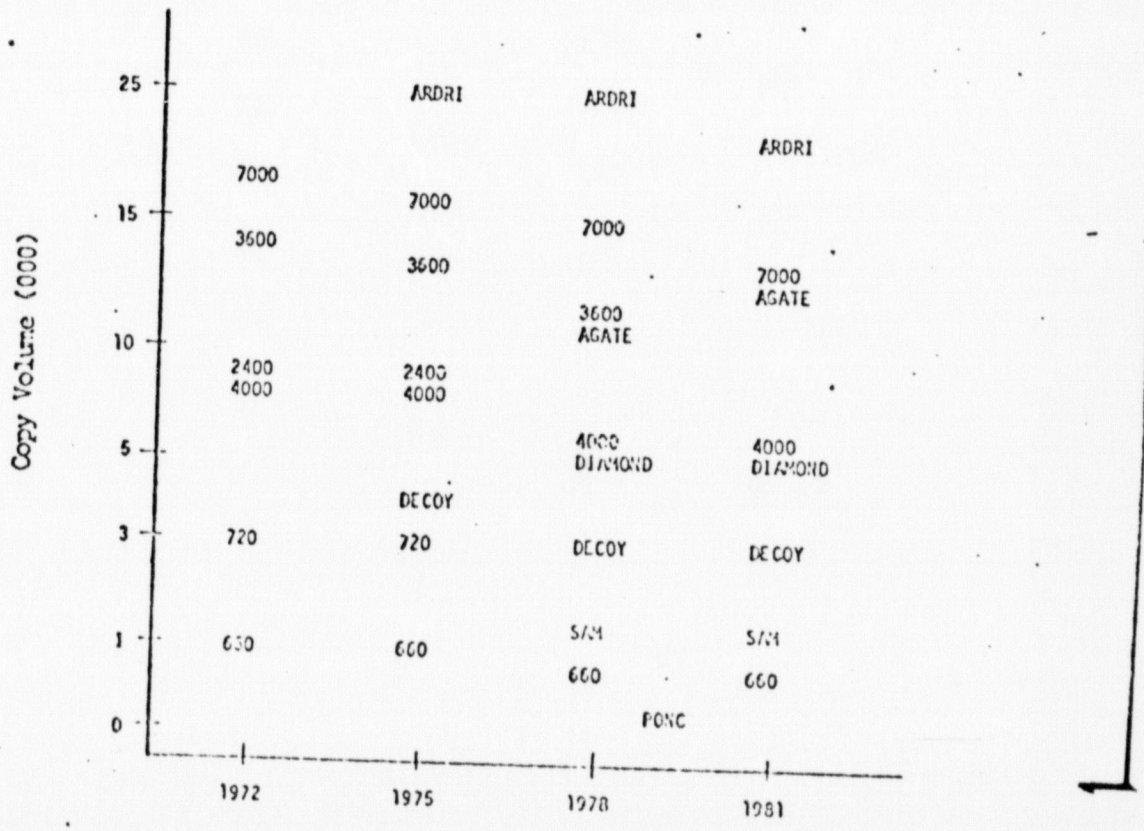
DECENTRALIZED REPRODUCTION

FEATURE SEGMENTATION BY VOLUME BAND



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TAB 2d

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p. 18

VII. PROGRAMS/PRODUCT CONCEPTS IN DEVELOPMENT

The products or product concepts that are currently planned to fill the gap identified in the 1978-1981 period between our Base Case and the Strategy Case are the following:

- SAM - a 500-2,000 CPM book copier under development at the Rank-Xerox Development Laboratories in England, which utilizes the SLIC technology. This product is targeted for introduction in the 1975-1977 period.

- PONC - this program presently in the concept phase is aimed at the lowest end of the market (0-1,000 CPM), and currently presents major risks with respect to product feasibility and targeted costs. December, 1972 is the targeted date for a technical and market strategy review of the program.

- AGATE/Diamond - follow-on products or upgrades to the 4000 and DECOY respectively, which include features such as integrated sorting, multiple paper trays, roll paper feed (Diamond only), improved fusing and other technical advancements, including improved reliability. These products are expected in the 1975-1976 time frame.

AGATE and Diamond will not only bolster the competitive effectiveness of the 4000 and DECOY against "systematized" competitive products, but will also provide back-up development in the event that the basic 4000 and DECOY programs cannot be adequately upgraded to serve the needs of the mid to late 1970's. Most important are the qualitative improvements of these products in terms of service cost reductions and the impact on profits and equally essential, customer sensitivity to reliability. Additional improvements in both the revenue and profit outlook will come from the use of the added features of Diamond and AGATE to enable the 4000, 3600 and 7000 products to remain in the higher volume bands. We would be using products which are projected to be less costly to produce and service in lieu of the more expensive and technically complicated equipment.

The introduction of Diamond and AGATE is not expected to obsolete the 4000 and 7000 products. These populations will be maintained through strategic actions which will offer the customer a choice of features. The multiple product offering should increase our competitive effectiveness in an environment where many combinations of machines and features will become available.

During the latter half of the 1970's ARDRI will begin to enter the upper volume band (15,000-25,000 CPM) in the Decentralized Reproduction market. The impact of this high capability duplicator will be relatively minor, however, and the discussion of its attributes will be undertaken in the Centralized Reproduction section. The AGATE program will reduce even further the need to bring ARDRI into this market.

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TAB 2e

Vol. II, Decentralized Reproduction, pp. 19-28

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

APPROVED PROGRAMS

A. DECOY

Product Description

DECOY is a compact, quiet, fast, flat platen, desk top copier designed for the convenience oriented, point-of-need user. It offers high productivity with excellent copy quality, including half-tones and solids on ordinary cut sheet paper. In addition, it answers the needs of the marketplace for a reliable, simple to operate, low maintenance, high performance unit that can be placed in any working environment and operate on a standard 115 volt, 15 ampere circuit.

- Large Document Configuration

  The Large Document Configuration is a base DECOY device with a factory installed document feeder on top of the machine to the right of the platen. It enables the copying from originals ranging in weight from 13# to 110# card stock and larger than 8-1/2" x 14", up to 14" x 18". This, of course, accommodates the domestic 11" x 17" size and the international A4 and B4 sizes.

  Accessories

- A stand, splitter and auditron are presently being pursued to further expand the placements of DECOY devices in both horizontal and vertical markets.

Market Strategy

DECOY will be targeted in the 1,000-5,000 copy per month market segment although placements are expected in higher volume bands due to unique combination of DECOY features.

This environment is presently being served by the 660, 720, 4000, a larger number of competitive devices and, to some extent, by decentralized 2400's. Increasing competitive vulnerability of the Xerox products has resulted from features deficiencies, in the areas of speed, size, book copying capability and operator involvement.

- New Business Opportunities

The attainment of new business is absolutely essential to achieve the forecasted growth of the Xerox installed population. DECOY placement strategy places primary emphasis on the realization of approximately 60% as new business placements over program life.

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Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

- Replacement Strategy

Although primary emphasis will be placed on the attainment of DECOY new business placements, to meet overall marketing goals, it will be necessary to also pursue a strategy of selective replacement of first generation products. Since high volume 660 and 914 devices, as well as low to medium volume 720's, have historically experienced high cancellation rates, DECOY trades will be encouraged where these cancellations are imminent and the customer is willing to trade off some cost in order to obtain the higher performance DECOY device.

- Large Document Configuration

The DECOY LDC will be the first domestic xerographic copier/duplicator capable of copying oversized originals size-for-size and the first low volume desk top xerographic device to offer large document capability. The DECOY LDC marketing strategy presents unique challenges and new business opportunities heretofore impossible to realize.

- Pricing Strategy

The DECOY pricing strategy has been developed within the context of Xerox strategy to position second generation copiers alongside first generation copiers in the same market segment. Because of cost/performance segmentation DECOY will appeal to the features sensitive customer and maintain a desired cost/performance relationship with other Xerox and competitive copier products.

Present plans are for us to offer the DECOY Large Document Configuration at a small additional features charge ($15) over the base DECOY.

The DECOY MUP pricing strategy, consistent with that developed for the 4000, utilizes a features charge and a single cost per copy for each of the three schedules.

Schedule

Planning continues toward a January, 1973 IMO but recognizes a potential exposure of up to four months, if block configuration and issue schedules are slipped and/or fusing and reliability goals are not attained.

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Major Program Risks

Image Sharpness (Halo)
Reliability: at EMO - 1 EM in 3400 copies
at Maturity - 1 EM in 7000 copies
Fusing (scorch, smoke, odor)
International Materials
Photoreceptor
LDC Schedule
Domestic Materials

- Low Density/Low RH
- Solid Area

B. ALTAIR

Product Description

ALTAIR is an elevated, moving-bin sorter with twenty bins of 50 sheet capacity (20# paper), compact size, quiet, field installable on the 4000. Reliability and maintainability is better than on current sorters. Key features are automatic collation of both simplex and duplex copies from ordered originals and a convenient unloading level.

Program Objective

The ALTAIR program will provide simple and reliable collating/thruput capacity, simplex and duplex, to the decentralized, casual operator environment. Initially, this capability will be offered on the 4000 to strengthen thruput capability and attract systems work. With a further design effort, the ALTAIR concept could be adapted to first generation duplicators.

Market Description

The ALTAIR/4000 system is targeted at the 5,000-20,000 copy per month market segment. This market segment has experienced increasing decentralization of copiers and increasing competitive sorter activities. It is the judgment of Product Planning that sorting capability will be a requirement for product viability in the decentralized copying environment of the mid-1970's.

Market Strategy

ALTAIR strategy strengthens the 4000 at the higher end of the Decentralized Reproduction environment, attracts latent copy volume through systems capability, and decreases 4000 competitive vulnerability. Primary emphasis will be given to incremental new business and the placement of ALTAIR concurrently with the main frame. Program timing is critical as every 4000 placed prior to ALTAIR availability is potentially a lost systems installation.

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

Schedule

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ALTAIR 1MD is scheduled for April, 1974.

Major Program Risks

- Unit manufacturing cost, with particular reference to 4000 electronic parts retrofit.
- 4000 processor achievement of maturity reliability goals to establish a viable 4000/ALTAIR system. ALTAIR breadboards are meeting introductory paper handling goals.
- Design and field implementation of ALTAIR retrofit to the 4000 without adversely affecting the 4000 reliability, parts costs and installation time.

DEVELOPMENT PROGRAMS

A. AGATE I

Product Description

AGATE I combines an improved performance 4000 processor (improved reliability, copy quality, and copy quality maintenance) with 20 bin sorting capability.

Product goals include:

- High system reliability (processor and sorter) - 1 EM in 25,000 copies; 1 jam in 4000 copies.
- Optimized line copy - consistent quality over 150,000 copies.
- Low service cost - $1.50 per 1,000 copies.
- Factory built/integrated sorting capability - 20 bins of 50 sheets/bin capacity.
- Power - 20 amps; 110 volts (including sorter).
- Two primary paper trays (500 sheets each) in addition to the 100 sheet capacity duplex tray.
- Unit cost - $ 4200

Market Description/Strategy

The AGATE I environment is the satellite copier/duplicator location serving the office environment, operated by casual operators, and producing 10,000 to 30,000 copies per month.

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

Implement AGATE I with strategies which will attract decentralized longer run length and systems applications, yet permit the 3600 family and AGATE to co-exist in the higher volume decentralized reproduction copy volume bands. A successful AGATE program will also reduce the necessity of lowering ANDRI into these volume bands to serve expected customer requirements.

Maintain existing 4000 machines in the 3,000 to 10,000 cpm bands, while converting some 4000 processors into AGATES.

Program Plans

- Initiate AGATE I feasibility phase to provide a basic engine with superior reliability and copy quality relative to 4000. Primary objective is to accomplish objective with minimal changes from 4000 base processor. Secondary efforts will be directed to developing new technologies, if necessary, to achieve significant improvements over 4000.
- Review program and select viable approaches for basic engine and sorting capability in Fall of 1972.
- Determine feasibility of 4000 to AGATE conversion during program feasibility phase.
- Start Program Definition phase - April, 1973
- Targeted IMO date - 1976

Major Program Risks

The major program issues concern the viability of using the 4000 as the technical base. These concerns are as follows:

- The degree to which existing 4000 subsystem performance can be extended.
- The level of performance achieved by the 4000 at maturity. The technical and schedule risks of the AGATE I program will be increased if the 4000 is significantly below its performance specification.
- The scope of the changes to 4000 that are required. If they are excessive then conversion to AGATE I configuration may be difficult, expensive and possibly unachievable.

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Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

B. DIAMOND

Product Description

Diamond is a console copier combining an upgraded DECOY processor and integral sorting capability in a single unit. The product will also have improved copy quality, copy quality maintenance and reliability relative to DECOY; will handle a full ream of paper and contain an auxiliary paper tray for special applications. A roll feed option may also be available.

Product goals include:

- Service cost of $2 per 1000 copies
- Sorter capability (15 bins, 50 sheets/bin)
- Reliability - 1 EM in 15,000 copies
  1 jam in 1500 copies
- Unit manufacturing cost - $2000
- Increased design life - 600,000 copies

Market Description/Strategy

Diamond will serve the 3000 to 10,000 copy per month environment in the 1976-1981 time frame. It will provide an alternative product employing proven technological capabilities to profitably serve the lower 4000/upper DECOY environment, thus eliminating the need to push the 4000 downward in the marketplace and DECOY up to a point of lacking necessary features and thruput capability.

Diamond, by virtue of its low manufacturing cost, will also close a gap in the product line which could arise in the lower volume bands. Furthermore, it would co-exist with the 4000 by offering a unique set of features (sorting, LDC vs. duplex, speed) thus enabling potential customers to choose the appropriate product for their requirements.

Program Plans

- Concept Phase (1972)
  1. Determine DECOY capabilities at higher volume usage and extent of product upgrade required.
  2. Explore product configuration - develop a viable product configuration

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Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

Program Plans (Continued)

3. Determine potential for converting base DECOY processor to Diamond.

- Feasibility Phase - start in late 1972
- Enter Design/Definition phase in late 1973.
- Targeted IMO date - mid-1975.

Major Program Risks

- Need to make major design and process changes to the basic DECOY processor.
- Increased program life costs and/or unit manufacturing costs which would reduce the cost efficiencies gained from using the basic DECOY engine.
- Program resources and ability to achieve IMO date.
- Market acceptance of Diamond at 1200 copies per hour rated speed. Achievement of reliability goals at increased speeds. May require increased scan rate and illumination, a faster photoreceptor, a larger developer housing, and paper feeding improvements.

C. SAM

Product Description

SAM is a small copier under development at the Rank-Xerox Development Laboratories in England. It will offer book copying capability and full image area, features not presently available on the 660. The product utilizes SLIC technology. IMO is targeted for 1977, although the possibility of a late 1975 introduction is under study.

Product goals include:

- 15-20 copies per minute output
- Unit Manufacturing cost of $ 600 - $ 800
- Reliability: 1 EM in 6000 copies
  1 jam per 1000 copies
- Service cost - $ 5 per 1000 copies
- Minimal operator involvement
- Low power requirement
- Short warm-up time (5 seconds maximum)
- Multiple copy capability

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Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

Market Description/Strategy

SAM is planned as the primary Xerox entry level product of the mid to late 1970's. It is expected to serve low volume, point of need customers in the 0 - 2,000 cpm range and build a trade base upon which Xerox can grow in the future.

The low volume, convenience market provides a substantial opportunity for growth of our reproduction business. The SAM product may provide the vehicle to attract this business as well as an additional portion of the work currently produced through the carbon paper method. Price and market strategies will be developed to enable SAM to serve the full breadth of customers in this environment.

Major Program Risks

Program risks, particularly manufacturing cost and schedule, have been identified. Risks evaluations relating to systems latitude (closed loop system) photoconductor deformability, plain-paper limitations of the SLIC process and process reliability are still to be completed. Probability of program success unknown until Feasibility Phase is completed (December, 1972).

D. PONC

Product Description

PONC is conceived as a small, low cost, limited capability copier to provide a point of need reproduction capability at the secretarial work station. It is based on the Delay Tack Adhesive (DETAP) process which has three primary steps: exposure, development, transfer/fix. The following product goals have been established:

- Compact and unique enough to fit into almost all electric typewriter locations
- Capable of reproducing single sheet copies of up to 8-1/2" x 14" from the majority of originals created on a typewriter with output on 13-20 pound ordinary paper
- Unit manufacturing cost - $400
- Manual and automatic copy paper feed units with a consumables cost not to exceed $ .01 per copy
- Consistently good copy quality
- Require no warm-up, first copy to be delivered in less than 10 seconds
- Capable of sharing a 115 volt, 15 amp circuit with an electric typewriter

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Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

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Product Description (Continued)

- Reliable, having no more than one jam per month and one service call per year at a volume of 500 copies per month
- Very simple to operate and maintain by the average secretary, casual operator.

Market Description

The PONC market is a convenience market providing creation, proof, limited internal distribution, and file copies from the secretarial work station and other totally decentralized point of need locations.

A segment of this market is presently being served by carbon paper and, to a limited extent, general office copiers. An additional copy volume opportunity, identified as latent "working" copies, has been heretofore unrealized.

The total opportunity for PONC can be correlated to both the office carbon paper market and the electric typewriter population.

It is estimated that approximately 120 billion copies were produced in 1971 on office carbon paper.

The electric typewriter population has been identified as representative of the quality and convenience portion of the office environment, to which PONC will be targeted. Currently, the U.S. electric typewriter population is estimated at 4.6 million units, and forecasted to expand to 9 million in 1975, 13 million in 1980 and 18 million in 1985.

Strategy

PONC is viewed as the vehicle with which to revolutionize the secretarial work area, attract business from carbon paper and serve the need for working copies. It is expected to operate in the 1 - 300 cpm range and to yield average revenues of $15 to $25 per month.

Additionally, PONC would establish a new market base by providing a capability which is beyond anything planned for even the simplest of general use copiers.

Schedule

	Targeted Completion Date
• Program Start	3/15/72
• PONC Business Review - technical status, patent status, and preliminary financial analysis	7/72
• Cost/configuration/feature trade-off analysis complete - report	11/72
• Concept Phase Technical Review - four technical reports, process demonstration, representative print samples, issues and plans for feasibility phase	12/72

Schedule (Continued)

	Targeted Completion Date
• Complete the development of preliminary Marketing Strategy	12/72
• PONC Business Review - results of Technical Review and Preliminary Placement Forecast and Financial Analysis - go/no go decision	12/72
• Feasibility Phase Proposal - start Feasibility Phase	1/73
• First production year	6/77

Major Program Risks

Several risks should be noted:

- Based on a preliminary patent search, a right to use problem could exist relative to the DETAP process for PONC
- A backup technology capable of fulfilling PONC requirements is not available.
- The ability to produce a PONC machine at costs feasible for the targeted market and yet compatible with machine controls requirements and input latitudes represents a major challenge and may not be achievable.
- While technical problems can be expected, the primary concern is product feasibility rather than process feasibility. Inability of Delay Tack Adhesive Process (DETAP) to staisfy PONC requirements would leave only limited application applicable to the DETAP technology.

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TAB 2f

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Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

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VIII. RESOURCE ANALYSIS

RESOURCE SUMMARY - OVERVIEW

The resources projected through 1981 in the 1972 R&E Division Long Range Plan exceed $1.4 billion. The following chart outlines the projected spending, Manpower, Space and Capital requirements.

	Actual 1971	Outlook 1972	Outlook 1973	Long Range Plan - 1972 Economics 1974	1975	1976	1977	1978	1979	1980	1981	Total 72-81
Total Spending - $(Millions)	67.5	79.1	88.3	99	113	129	146	163	180	197	217	1411
% Growth - Year Over Year	-	17	12	12	14	14	13	12	10	10	10	-
Manpower - Year End	3102	3238	3640	3900	4350	4900	5500	6150	6700	7350	8000	-
Space - Millions Sq. Ft.	1.0	1.0	1.0	1.1	1.2	1.4	1.6	1.7	1.9	2.0	2.2	-
Capital Approvals - $(Mils)	4.8	13.9	13.4	12	17	20	34	10	30	12	13	157
MEMO: Economic Increment												
Expense	-	-	3.5	8	13	20	28	39	51	64	69	307
Capital	-	-	1.6	2	4	7	16	6	26	10	15	88
Total	-	-	5.1	10	17	27	44	45	77	74	93	395

Figure 1. Resource Summary

R&E Division spending is planned to grow at a 12% compounded rate through 1981. By then, annual expenses of $217 million are projected, almost triple the 1972 outlook of $79.1 million. The manpower and facilities growth for the 1972-1981 period is planned at almost three times the current staff.

Detailed spending projections for R&E Division programs are included in Exhibit III. Additionally, planned and proposed product introduction dates are included in Exhibit IV. Individual product descriptions are contained in the Appendix.

SPENDING ANALYSIS - DIVISION SPENDING

Annual expenditures are as follows:

	Actual 1971	Outlook 1972	Outlook 1973	Long Range Plan - 1972 Economics 1974	1975	1976	1977	1978	1979	1980	1981	Total 72-81
Total Spending - $(Millions)	67.5	79.1	88.3	99	113	129	146	163	180	197	217	1411
% Growth - Year Over Year	-	17	12	12	14	14	13	12	10	10	10	-

Figure 2. Total Spending

Figure 3 shows the composition of the plan by the major categories: Business Area (Product R&E spending), Technology, Technical Support, Occupancy and Administration.

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

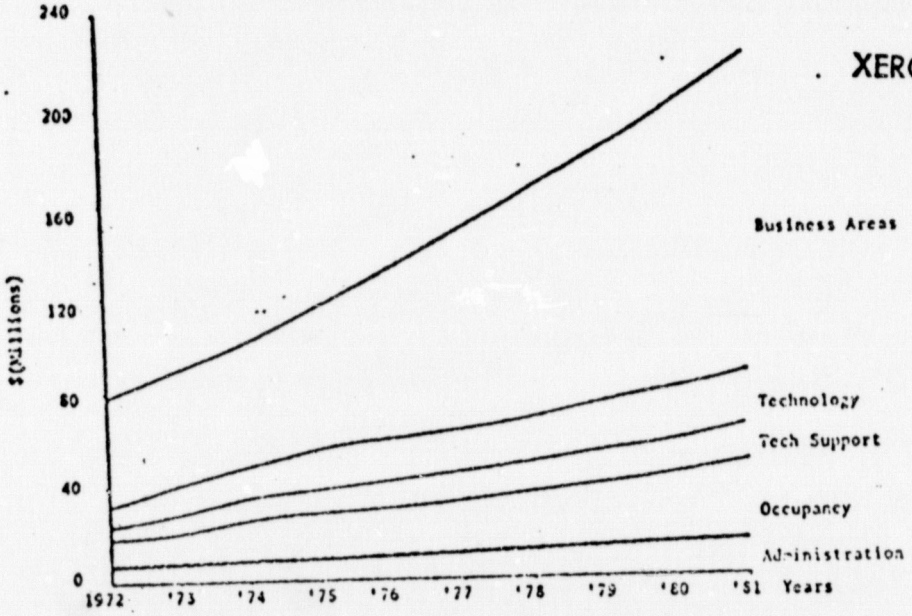

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Figure 3. Spending By Category

Business area program spending grows from a 1972 level of $47 million to $132 million in 1981. This category represents over 60% of total spending. There are, however, shifts in the allocation of resources within the Business areas between 1972 and 1981. This is shown below. Figure 4 shows the percentage shifts and Figure 5 shows the dollar levels.

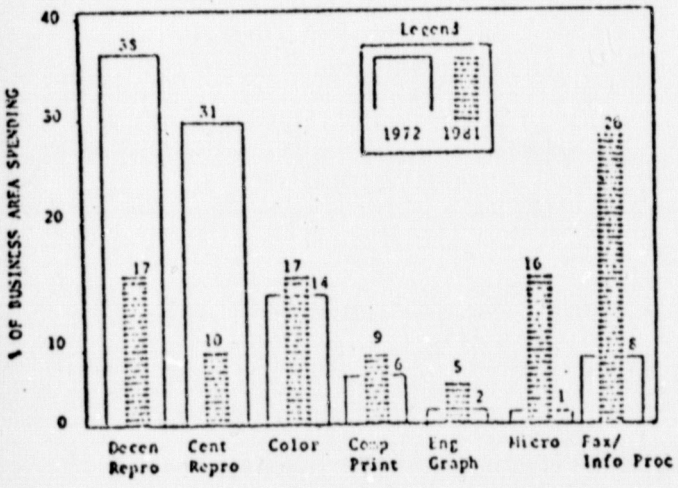

Fig.4 % of Business Area Spending 1972/81

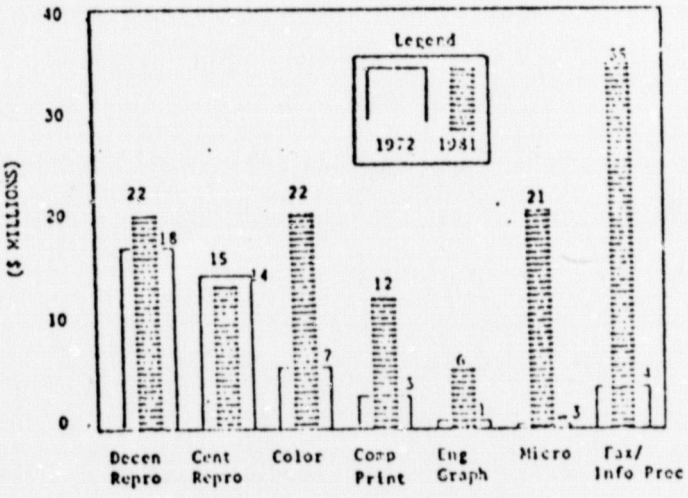

Fig.5 Business Area Spending 1972/81

- Decentralized and Centralized Reproduction maintain their combined absolute levels of spending at $35 million, yet decrease by almost two thirds as a percentage of total Business area spending. At about 15% in both 1972 and 1981, Color increases in absolute spending from $7 million in 1972 to $22 million in 1981.

- The Systems area, the Information Process Business area in particular, increases at a compound growth rate of [illegible] from a base of $8 million in 1972 to a level of $71 million in 1981. This rate of increase indicates the emphasis being put on products and technologies to support the Information Processing concepts and hardware requirements in the late 1970s and 1980s.

TAB 2q

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Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

1972 LONG RANGE PLAN

PRODUCT DEVELOPMENT PHASING

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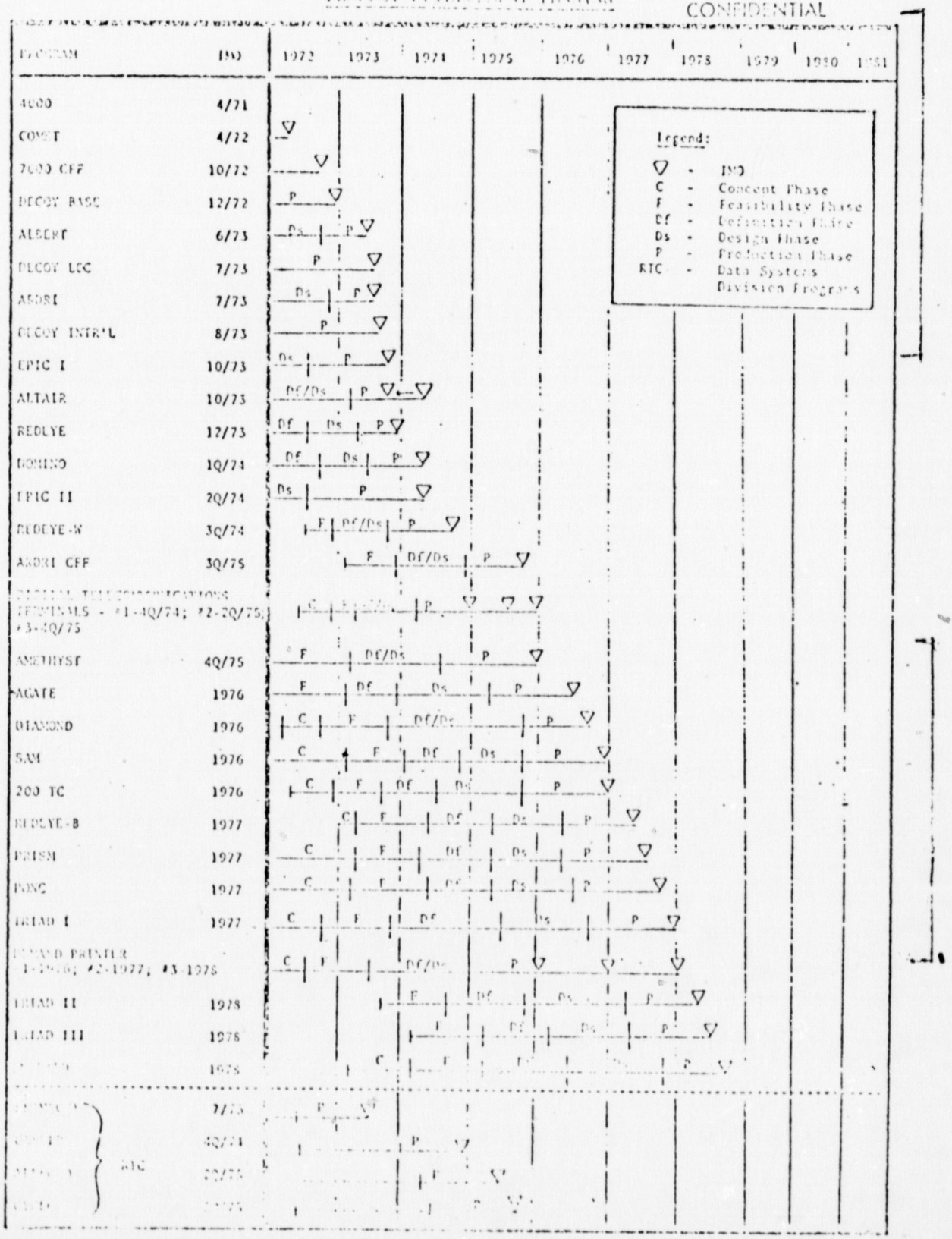

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TAB 2h

Vol. II, Research and Engineering, Appendix,
pp. 1-3

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

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PRODUCT PROGRAM DESCRIPTIONS

COPIERS/DUPLICATORS

Current Copiers

The Current Copier Products Section includes the 813/660 "desk top" and the 914/720 Console families with their accessories and modifications (including Comet). These two families of copiers primarily serve the lower volume markets.

Duplicators (Base Case)

This program provides continuing minor product improvement and Manufacturing/Field support for the 2400, 3600 I/III, and 7000 duplicators, and all current accessories.

Duplicators (Strategy Increment)

This program is proposed to open the duplicator systems market for current duplicators (2400, 3600 I, 7000). It provides copy quality improvement short of major duplicator redesign, and two high reliability accessories: a new sorter and an improved document feeder.

Duplicators (Forward Development)

This program anticipates a requirement to hold the upper end of the current duplicator market into the 1980's with the 7000 main frame. An approach is proposed for high reliability processing and the ancillary operations aimed at systems applications.

Decoy

A compact low cost desk top copier with solid area and light density copying capability operating on a standard 15 amp 115 volt circuit. Decoy's high reliability and light image capability are targeted at decentralized point of need copying requiring minimal customer involvement. A Large Document Configuration will copy documents up to 14" by 18".

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4000

A compact high speed console copier with solid area capability to give a competitive performance edge in markets presently served by the 914/720. Quiet and convenient operation along with automatic duplex capability will enable the 4000 to overlap low volume and decentralized duplicating markets now served by 2400/3600.

Altair

A sorter accessory to be used in conjunction with the 4000 to provide increased utility to high volume users, thereby expanding the 4000 market.

Agate

A 4000 upgrade to provide improved reliability, better copy quality and copy quality maintenance with lower service cost through extension of current technologies. Agate will provide a base from which additional features (e.g., reduction capability and an automatic document feeder) can be added in subsequent models to extend the market position established by the 4000 and Agate.

Diamond

A performance upgrade of the Decoy system, to have increased copy quality, copy quality maintenance and reliability at higher throughput rates in a console copier. Additional features may include an automatic feeder, sorter and roll paper feed. Lower service costs will enable Diamond to more profitably serve the lower 4000/higher volume Decoy market.

Sam

A small, low cost, highly reliable copier for the low volume sector of the copier market (monthly volume of 300 to 1000 copies) intended to permit penetration into the small volume market.

Ponc

A low cost, low power requirement, copier to provide copy facility at the secretarial work station, small enough to easily place with any electric typewriter. Ponc will be a low volume convenience to the secretary to replace carbon copies and facilitate "working" copies.

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

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Ardri

A high speed duplicator system to establish a position for Xerox in the high volume duplicator market through copy quality approaching that of off-set printing, solid area rendition and automatic input document feeding capability. Ardri will also expand our position in the copier and low volume duplicator markets through high reliability, manual duplex and automatic output sorter systems features. Ardri provides the base for an antire family of very high performance copier/duplicator systems.

Amethyst

Building on an Ardri base, a performance and feature upgrade with increase in reliability and copy quality maintenance and lower service costs. Added features include zoom optics for reduction copies, automatic two pass duplex and inspection copy.

Triad I

A features upgrade of Amethyst to accomodate microfilm input and on-line output compiling, stapling, and stacking. The program includes a separate camera processor to produce a dry-process microfilm intermediate from original documents.

CoCo

A small, slow, table top copier, operating on standard 15 amp, 110 volt circuit. Developed from a 660 base by Fuji Xerox, program consists of conversion to U.S. market requirements.

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TAB 3

XEROX CONTROL OF TECHNOLOGY

TAB 3a

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Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

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II. DIVISION OVERVIEW

The strength of the R&E Division is guaged in its capability to meet objectives. Therefore, as we introduce plans for the future, we will state the major objectives of the Research and Engineering Division and comment on the approaches and resources being applied toward their accomplishment.

Our objectives which support the basic business strategy are:

- Maintain technical supremacy in the copying and duplicating part of our business -- the "heartland".
- Provide technology expansion and the products to extend the "heartland" to its extremities -- from low volume copying to high volume duplicating, to penetrate the color reproduction market, and to apply xerography in other uses (e.g. low volume demand printing, computer printing, etc.).
- Develop new technologies to penetrate the document creation and distribution segments of the information processing/communications markets.

PEOPLE

The real strength of the R&E Division rests in the technical capability of our people. This professional staff, representing 95% of the world's Xerographers, comprises a proficient technical community. They possess extensive knowledge in a variety of fields, such as material sciences for understanding photoconduction, polymers and elastomers; optics for precise image capture, conversion and transfer; and mechanical design for complex electro-mechanical systems and assemblies. We are continuing to build upon this foundation through the addition of modest numbers of engineers and scientists selected for creativity and technical/managerial potential.

INNOVATION

A basic ingredient in any research and development effort is the ability to search out, identify, and develop new technologies that can be converted into marketable products. This is true at Xerox especially as it applies to our entering the color market and developing technologies for products to penetrate the broad areas related to information systems. New technology development is enhanced when creative people are involved in active communication -- in the exchange of ideas and continual feedback. One of the most serious challenges we face is providing the environment to nurture creative ideas in a large and growing organization.

R&E management has taken several steps during the past year to strengthen this kind of process. At the Division level, Technical Councils have been formed; within the Development Department Technology Centers have been established; and in PD&I a series of actions have been initiated

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TAB 3b

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Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

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V. REPRODUCTION AND COLOR

OVERVIEW

Since the development of the first three major xerographic products (813, 914, and 2400) which virtually shaped the low, medium and high volume copying market segments, broad strategies for maintaining our business in this "heartland" have been developed, refined and expanded. Most significant of these was Strategy Q which called for second generation successors for the 813/660 and 914/720 and for a duplicating system to develop new business in the high copy volume market segments above the 2400/3600 family. This strategy with some modification led to the establishment of the Decoy, 4000 and Ardri programs. The important concept of the major product upgrades or variants was a significant addition to the product strategy and has resulted in the establishment of the Agate, Diamond and Amethyst programs.

The present strategy remains as defined in the 1971 Long Range Plan to continue growth and development of "heartland" xerographic copier/duplicator product lines and to extend from the "heartland" into low volume copying, high volume reproduction and color reproduction. However, new information indicates that the present first and second generation products, with appropriate upgrades, will remain in the marketplace three to eight years longer than projected in the 1971 LRP forecast. This has made it imperative that the performance goals, priorities and schedules of the second generation variant programs be reconsidered. The importance of bringing out the remainder of the second generation products on a timely basis has not diminished, but the pressure to achieve rapid manufacturing volume buildup has moderated.

The product environment, key technical strategy issues and R&E response to these issues are detailed for the Decentralized, Centralized and Color Reproduction business areas in this section. You will note the increased attention to reliability, maintainability and copy quality in these discussions. Also, the development of explicit technology strategies for the critical xerographic components and subsystems of our machines has been identified as a major target. These strategies will form the base upon which the relevance of our technology efforts can be evaluated.

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

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DECENTRALIZED REPRODUCTION

Environment

- Market Summary

Convenience copying by unskilled operators, at copy volumes up to 25,000 copies/month constitute the bulk of this market, although occasionally higher volumes are found. Xerography is the dominant technology between 1,000 and 35,000 copies/month. Below 1,000 copies/month, the cost of fully automated xerographic machine systems becomes too high in comparison with Electrofax, the principal competitive technology. Above 35,000 copies/month average run lengths increase to the point where the convenience, flexibility, and short run throughput advantages of xerography are gradually cancelled by the lower expendables costs and high image quality of lithography, until at 150,000 copies/month lithography is completely dominant. At volumes above 150,000 copies/month, only 1.4% of the total copy volume in the U.S. in 1971 was produced by Xerox equipment. Input collation, which cannot be done lithographically, raises the upper limit of economic and throughput advantage for xerography to some extent, but it is difficult to achieve with sufficient reliability with uncontrolled full-sized paper input documents.

Much of Xerox's basic patent coverage is expiring. However, xerographic machine systems are highly complex, interactive and precise and require significant know-how to achieve high performance in an economical design. As a result, the first efforts of the competition have produced machines with unimpressive cost/performance characteristics, primarily from Japan. The exception has been the IBM 8700 which compensates for its low copy rate, slow first copy time, and relatively high manufacturing cost with excellent line image quality, excellent copy quality maintenance, and superior reliability--all achieved through superior engineering which was obviously focused on precisely those characteristics.

A second IBM device is expected to reach the market place at about the end of 1972. Its copy rate is anticipated to be in the 25-40 CPM range. Other performance characteristics are not known at this time.

Technical Strategy

Product Planning feels that the first generation products will hold in the market place much longer than was anticipated last year and that the build rates for the second generation will probably be slower. For R&E this means that the first generation

products should be re-examined more carefully to see what can be done to improve their reliability and reduce service costs. Improvement programs which were formerly rejected because short product life made them not worthwhile may now be much more attractive.

These trends also mean that the objectives, priorities, technical strategies, and schedules for the second generation variant programs must be re-examined. Accordingly, a review of the technology programs against the needs of the second generation variants is needed. This review must reassess technology spending if the second generation variants should be delayed. It should also lay strong emphasis on the potential impacts of the various technologies on the reliability/service cost aspects of the second generation, since it is in this area where the effects of high stresses on the second generation machine systems and their narrower operating latitudes are most apparent.

Xerox is still serving the below-1,000 copies/month market poorly. The BPG Small Copier Committee which was formed in September 1971 has reached the conclusion that it is not possible to obtain a xerographic copier with the traditional features (book copying, multiple copy, automatic paper feed, etc.) at low enough unit cost to be really attractive. Study of machine manufacturing costs indicates that a large portion of unit cost is associated with those traditional features. Continuing strategy evolution is required to determine an optimum technical approach for the needed small copier.

The greatly increased sophistication, complexity and precision of the second generation products and the difficulties encountered in improving their image quality maintenance and overall reliability have made it obvious that major improvements in performance for future products will require technical progress on many fronts. R&E has as a challenge the development of a balanced technical strategy which addresses the xerographic core technologies - Photoconductors, Development, Materials, Fusing, Cleaning and Transfer, Illumination/Optics, and Paper Handling -- the Input/Output functions (such as sorting, automatic document handling, image buffers, etc.) and its own engineering and design skills.

Plans Summary

- Technical Perspectives - Product Programs

  The mainstays of the first generation product line -- the 660, 720 and 3600 -- were developed as upgrades of the 813, 914 and 2400. The technical base for this series of upgrades was the under-utilization of open cascade xerography as it was practiced in the original products. The increase in speed of the upgraded products simply used up available system latitude, with no need to develop faster photoconductors, new developer materials, new cleaning or fusing systems,

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TAB 3c

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Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

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ISSUE - ORGANIZATIONAL STRENGTHS AND WEAKNESSES

While considerable strengthening of the division has been achieved in the past year, additional improvements will be sought to bring the division's structure and style in line with the missions of its long range plans.

As division capabilities are developed, one key issue is balancing of power and efficiency. That is, how to focus high levels of strength in critical areas while maintaining principles of efficient resource allocation. Another key issue is improved balance in the distribution of departmental missions, spans of control and resources. In relation to R&E's role in the larger ITC community, issues include such areas as the development of information systems and international product development.

Unquestionably, the division's primary strength is its collective talent and experience. Several recent organizational steps have been aimed at improved focusing of this capability: the formation of Technology Centers with concentrated expertise; Technical Councils where common problems and solutions are shared; decentralization of reliability support; functional transfer of selected photoreceptor development activities from RLD to DD; and TAD operations review responsibilities. Other steps, such as the formation of the TAD Planning Staff also are aimed at long-term advantages.

Improvements in operational style and efficiency have been made, and we are planning for further progress in these areas: a more analytical approach within the technical process has been established and is progressing; management development programs have been initiated; engineering skills are being upgraded; the use of computers is expanding; materials and process characterization efforts are underway; strategic planning procedures are evolving.

We are faced with important challenges, and our plans to meet them can be summarized as follows:

• Spans of control.	Restructure R&E. Mid-1972
• Imbalance in accountability vs. resources.	Restructure R&E. Mid 1972
• More effective materials development.	Restructure R&E. Mid-1972
• Program/functional matrix management.	Restructure R&E. Mid-1972
• Develop Information Systems capability.	Develop strategy, organization, skills, and inter-ITG relationships.
• International R&E.	Develop strategy, organization and program responsibilities, standards and procedures.
• Improve skills for talent.	Balance discipline and flexibility. Continue to improve identification and career development for R&E professionals.
• Technical management development.	New training programs combining human relations and management of technical operations. Mid-1972
• Meet social responsibilities.	Meet ITG's affirmative action targets and other related programs.

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TAB 3d

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ISSUE - PROPRIETARY TECHNICAL/PATENT PLANNING

It is a major responsibility of the R&E Division to develop a strong proprietary position in technologies relevant to Xerox interests. This objective is accomplished by working with the Corporate Patent Department to establish patent protection for technical developments, inventions and discoveries occurring within the division. Strategies regarding patents follow from strategies regarding product and technology.

Since xerographic technology is maturing, since formidable competition has developed, and since we have entered a period when many basic xerographic patents are completing their effective lifetimes, the focus is shifting away from passive reliance on pre-eminent patent protection toward technical mastery of xerography. Although some important new patent protection may result from continued research in this field, it is apparent that the company's competitive edge in xerography will from now on be maintained by its ability to effectively innovate, develop, produce and market advanced products.

Beyond xerography, there are many technical fields (such as waterless lithography, photo-electropheresis, electrostatic/gravure (SLIC) imaging, buffers and displays, etc.) of great importance to both the reproduction business areas and, to an extent, the systems business areas. Vigorous efforts are required to establish strong patent positions in such technical fields, and this can be done in advance of completed product/technology strategies.

As the company proceeds with plans to enter new business areas, the task of developing meaningful new proprietary positions is a formidable challenge. R&E Division management is aware of its responsibilities and has begun a program aimed at upgrading our position. The objective is to provide, in conjunction with the corporate patent department, proprietary positions in deliberately chosen fields of significant technology. The approach is as follows:

- Identify and select fields of importance for concentrated attention.
- Develop information about each field, from a proprietary viewpoint, to establish an information base on proprietary positions - ours and competitors.
- Assess the information base in relation to our capabilities and outline specific plans to provide certain new proprietary positions including "planned" inventions and patent coverage.
- Recommend appropriate courses of action to R&E and Patent Management.
- Focus the attention of R&E and Patent management on potential threats or opportunities regarding proprietary positions.
- Participate in the planning and review cycles of technology and product programs to assure the integration of plans for proprietary/patent positions.

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TAB 4

XEROX POWER TO CONTROL PRICES

TAB 4a

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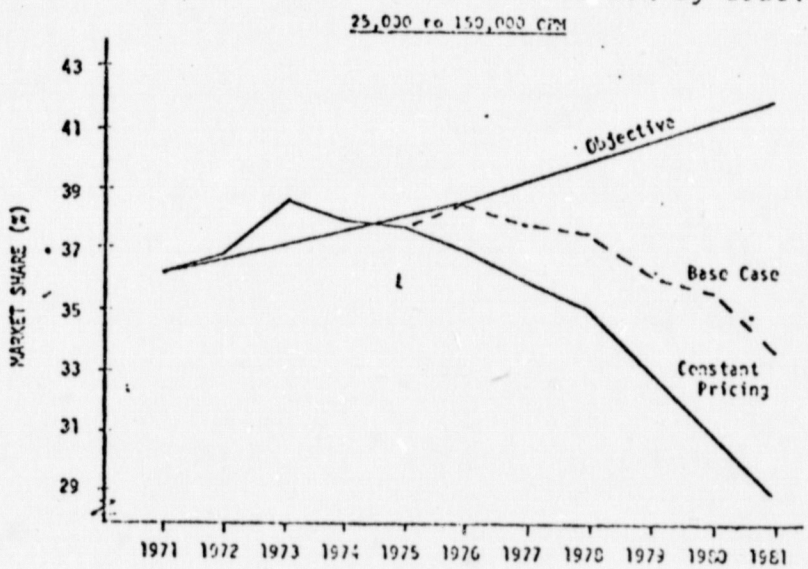
While previous forecasts had suggested that Xerox would be joined by several non-offset competitors in the lower portion of this segment, this has not happened. Current competitive forecasts predict that IBM duplicators in 1973 and 1976 will be our only major non-lithographic competition throughout this decade. It is, therefore, no longer necessary to obsolete our current duplicators with ARDRI priced to attract trades.

ARDRI C/D will be kept high in this market segment aimed primarily at the market from 50,000 to 150,000 copies per month. While it appears that there is some revenue lost by limiting ARDRI to the upper portion of this band, it is expected that profits will benefit by keeping existing products on lease, and promoting only those trades which are most profitable.

Our market objective will be to profitably increase our placement through 1981, even as competition increases. Our goal is 42% of this market, constituting a 9% growth in Xerox copy volume which compares to 6% for this market.

As can be seen from the chart below, with the above strategy no price action is recommended until 1976. It is expected that by then, however, IBM with its two duplicators, as well as improved hybrids and offset systems, will be competing most effectively with our current duplicators. Without price action, our share decreases from 35% in 1976 to 29% by 1981.



Several broad strategic pricing actions aimed at the 25K to 150K CPM market are planned which will enable us to mitigate the projected loss of share in the latter portion of the decade. It should be noted that these are general pricing strategies and that specific tactics undertaken to accomplish the market objectives will, of course, be tempered by then current climates.

- Reduction of ARDRI C/D minima $100 in 1976.

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- Reduction of 7000 minimum by $100 in 1977.
- A second reduction of ARDRI C/D minimum by $100 in 1979.

The purpose of these actions is to adjust to market conditions. Other strategies under consideration in the Strategy Case are described below:

- It is believed that the expected IBM duplicators will be features/input oriented machines. Current products (7000, 3600) will therefore need improved reliability and features if they are to compete effectively without additional price action. Under consideration are general copy quality/reliability improvements to both units. Preliminary discussions have also been held relative to improved sorting and document handling capabilities.
- The development of an ARDRI "duplicator/copier" (D/C) price plan would make ARDRI available to customers with 50,000 to 150,000 cpm demand, including some copying work. Such a plan would allow the production of short run length work at competitive prices and would also be attractive for longer run applications. This strategy would be directed toward smaller CRD's, satellite CRD locations and centralized office reproduction areas. The plan will be designed to compete with equipment types found in the upper half of this segment (hybrids and automated offsets) and at the same time minimize the exposure of present Xerox copier/duplicator products.

As indicated above, we are forecasting a general ability to maintain 1972 price levels throughout the decade. Last year's plan called for reduced meter charges beginning in 1972. This year's plan calls for only three minimum reductions beginning in 1976. The overall effect has been a 14%-29% relative price increase for duplicators between plans.

150,000 CPM Plus

Today in the 150,000 + copy per month segment, Xerox has only 600 units, 1.4% of the total available market. This high volume area is truly an offset heartland. Over the coming decade, we will increase our placements so that by 1981 we will have increased our market share to 35%, accounting for 71 billion copies annually.

The vehicle for the penetration of this volume band will be a fully accessorized ARDRI. ARDRI Duplicator will be introduced in July of 1973 and by 1978 will have 21% of this volume band. The second stage of our efforts in this area will be championed by a family of advanced duplicators (AMETHYST and TRIAD) evolving from the basic ARDRI engine offering significant product feature improvements. These products will increase our 1981 market share to 35% as shown in the chart below.

TAB 4b

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lives from programs such as the 1000 and Meteor on the 720, variable sorter pricing, the Educational Application Plan and the feature power (speed, reduction, steel shot) of the 3600/7000. An implicit assumption is that the 4000 experience gained will be used to successfully launch the DECOY and ALTAIR (4000 sorter) programs.

MARKET SHARE - COPY VOLUME

Copy Volume Band	1968	1971	1972	1976	1981
1,001- 3,000 cpm	35%	34%	34%	38%	35%
3,001- 5,000 cpm	53%	47%	46%	50%	44%
5,001-10,000 cpm	71%	64%	68%	69%	59%
10,001-15,000 cpm	85%	72%	74%	70%	58%
15,001-25,000 cpm	44%	53%	54%	55%	52%
Total 0-25,000 cpm	48%	49%	50%	53%	47%

Growth (thru 1976) is attained in the lower bands because of the availability of DECOY. In the 5001 - 10,000 cpm bands, growth is accomplished with the 4000. By 1976, however, this product alone is no longer able to maintain the earlier growth rate. Present duplicator products and ARDRI C/D enable us to grow in the 10,001 - 25,000 cpm bands thru 1976.

In the latter half of the planning period, present products are expected to become obsolete and a decline of six percentage points is anticipated.

To insure that our forecast goals will be achievable, the following action is required: reliability and copy quality improvement programs independent of but fully aligned with the 4000 and DECOY should be given high priority attention. These program resources should not be used to complete the product introduction process, but should be specifically earmarked for use in bringing the products up to required specification.

Pricing

The price level and structure in this plan is different from that on which the 1971 Plan was based. Last year we were predicting]

a general decline in price levels in the marketplace caused in large part by a large number of formidable competitors entering the U.S. copier market within a few years. We now expect competitive plain paper machines to appear at a more gradual pace and at higher price levels.

In view of our present projections about the decentralized reproduction environment, we are predicting an ability to generally maintain 1972 price levels throughout the forecast period. Monthly minimums are maintained at higher levels and a new price structure and reduced meter charges for the 2400, 3600, and 7000 products does not appear desirable within the next few years. The few price changes incorporated in the plan are intended to make new products available to a greater number of potential customers. Overall, the price level in the higher volume areas is 8% to 25% greater than that of the 1971 Plan.

PERCENT PRICE INCREASE - 1972 vs. 1971 LRP

Monthly Volume	2400 DUO	2400 Regular	3600 I DUO	7000 DUO
7,000	14%	10%		
8,000	17%	8%		
10,000	18%	8%	16%	
12,000		8%	16%	18%
16,000		8%	19%	20%
20,000		9%	21%	22%
24,000		9%	25%	26%

Tactical price changes are not included in the Plan as they are implemented only when a short term supply/demand imbalance occurs. To allow for these supply/demand considerations for unforeseen product, technical and marketing developments, revenue contingencies are included in the financial statistics. These contingencies are expected to be used to support the on-lease first generation products in the 1973-1981 period and to be needed for second generation equipment in the 1977-1981 period. Specific price and/or product action to be required in these later years cannot be determined at this time and is not shown in the Plan.

TAB 5

XEROX POWER TO WITHHOLD NEW PRODUCTS

TAB 5a

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very much like an upgraded IBM 8700 and would be a worthy competitor if marketed here.

While the plain paper revolution is taking place, zinc oxide machines will also be improved and these higher quality units will be aimed at the lower volume segments and will replace present zinc oxide equipment. High speed zinc oxide units will also appear in the high volume bands and will compete with the plain paper units.

Another expected competitive development is the appearance of "systematized" competitive equipment. These machines, which are expected in the late 1970s, will include integral sorting and document handling, versatile paper input mechanisms, higher speeds, better quality and improved exterior appearance.

BASE CASE REVIEW

The 1972 Long Range Plan Base Case is based on an explanation of the market environment and competitive conditions from the "top-down". This approach considered such critical factors as the economy, market size and potential growth, expected product advances by both Xerox and competition, and our ability to develop our business in the market bands examined.

Key assumptions underlying the Base Case are as follows:

- No major new competitive technology or product surprises during 1972-1981 are anticipated. New products to be marketed will be those already known or expected to be developed in the forecast period.

- Second generation Xerox product effectiveness will enable us to compete in most volume bands (with the exception of the low volume copying area) through the mid-1970's but not in the 1980's.

- First generation products are expected to stay on lease longer than had been projected in the 1971 Plan. Accordingly, a slower buildup of second generation populations can be accomplished.

- Reliability and copy quality retrofits to second generation products will be introduced as they become available.

- ISG will be able to accommodate the projected business growth. The ability of operations to introduce multiple products in the 1973-74 period and to adequately train sufficient sales and technical personnel to accomplish this task is a major issue which is discussed in the ISG Plans.

- 1972 price levels will generally be continued during the planning period. Tactical price changes are not included in the Plan as they are implemented only when a short term supply/demand imbalance occurs. Appropriate revenue contingencies are included in the financial projections to allow for these considerations and for unforeseen competitive product and marketing developments.

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- PONC - this program, presently in the concept phase, is aimed at the lowest end of the market (0-1,000 CPM), and currently presents major risks with respect to product feasibility and targeted costs. December 1972 is the targeted for a technical and market strategy review of the program.
- Agate/Diamond - follow-on products or upgrades to the 4000 and DECOY respectively, which include features such as integrated sorting, multiple paper trays, roll paper feed (Diamond only), improved fusing and other technical advancements, including improved reliability. These products are expected in the 1975-1976 time frame.

Agate and Diamond will not only bolster the competitive effectiveness of the 4000 and DECOY against "systematized" competitive products, but will also provide back-up development in the event that the basic 4000 and DECOY programs cannot be adequately upgraded to serve the needs of the mid to late 1970s. Most important are the qualitative improvements of these products in terms of service cost reductions and the impact on profits and, equally essential, customer sensitivity to reliability. Additional improvements in both revenue and profit outlook will come from use of the added features of Diamond and Agate to enable the 4000, 3600, and 7000 products to remain in higher volume bands. We will be using products which are less costly to produce and service in lieu of the more expensive and technically complicated equipment.

The introduction of Diamond and Agate is not expected to obsolete the 4000 and 7000 products. Their populations will be maintained through strategic actions which will offer the customer a choice of features. The multiple product offering should increase our competitive effectiveness in an environment where many combinations of machines and features will become available.

During the latter half of the 1970s, Ardri will begin to enter the upper volume band (15,000-25,000 CPM) in the Decentralized Reproduction market. The impact of this high capability duplicator will be relatively minor, however, and the discussion of its attributes is undertaken in the Centralized Reproduction section. The Agate program will reduce even further the need to bring Ardri into this market.

Strategy Summary

The major elements of the Decentralized Reproduction strategy can therefore be summarized as follows:

- A slower new product build-up. The 4000, Decoy, and Altair forecasts show lower populations in their early years compared with the 1971 Plan.]
- The offering of more reliable products and the attaining of correspondingly lower service costs in our traditional business area (1,000-25,000 copies per month).
- The marketing of the new products in higher copy volume and revenue segments than had been previously considered.

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TAB 5c

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While previous forecasts had suggested that Xerox would be joined by several non-offset competitors in the lower portion of this segment, this has not happened. Current competitive forecasts predict that IBM duplicators in 1973 and 1976 will be our only major non-lithographic competition throughout the decade. It is, therefore, no longer necessary to obsolete our current duplicators with ARDRI priced to attract trades.

ARDRI C/D will be kept high in this market segment aimed primarily at the market from 50,000 to 150,000 copies per month. While it appears that there is some revenue lost by limiting ARDRI to the upper portion of this band, it is expected that profits will benefit by keeping existing products on lease, and promoting only those trades which are most profitable.

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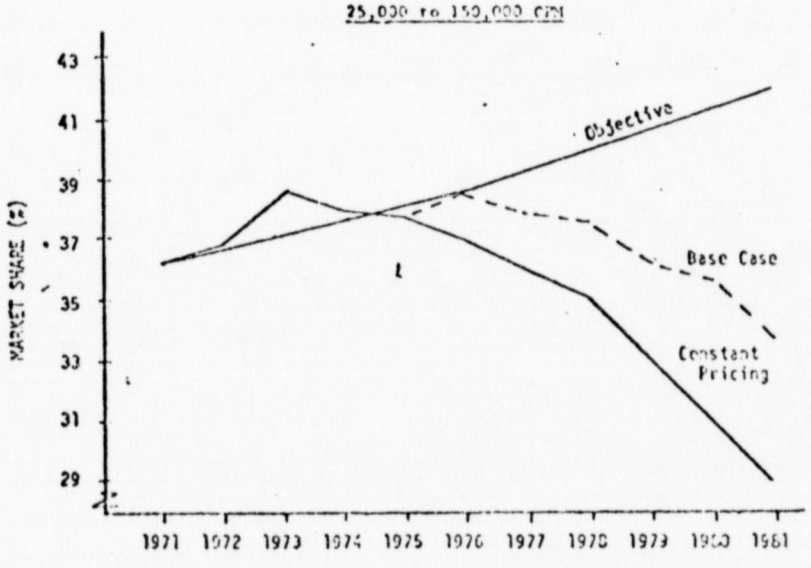

Several broad strategic pricing actions aimed at the 25K to 150K CPM market are planned which will enable us to mitigate the projected loss of share in the latter portion of the decade. It should be noted that these are general pricing strategies and that specific tactics undertaken to accomplish the market objectives will, of course, be tempered by then current circumstances.

- Reduction of ARDRI C/D minimum $100 in 1976.

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IV. Market Strategy

During the 1960's, Xerox developed and introduced a series of copier/duplicator products ranging from the 813 to the 7000. As each product was introduced it was placed in its unique market segment with a unique price and marketing strategy. As sufficient product became available, meter minimums were reduced to make the product available to more customers. Meter pricing plans were also adjusted to attract specific usage applications or to improve customer/sales force perception and understanding of monthly rental costs.

Xerox now offers a full product line which serves the total customer spectrum from low volume to high volume low run length to high run length. Yet, there remain gaps in our marketing effort, either due to insufficient product power or high costs, which are being addressed by the second generation products and the follow-on development programs.

In previous years, our business strategy was to bring to market new products as quickly as possible and to use these products in areas presently served by first generation products considered to be competitively obsolete.

Our present strategy is still to develop and test new products as quickly as possible. However, the competitive outlook has changed and our first generation product power appears greater so that the need to rapidly replace present products is not as great as previously thought.

The new strategy results in reduced sales, service and churning costs and the marketing of more reliable products. It also enhances profit margins because we do not have to build as many new machines and can continue to use depreciated equipment over a longer time period.

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p. 26

Our current ARDRI strategy will, at least in the short run, place a constraint on ARDRI availability, if in fact, more are needed. This constraint may represent a problem. However, the plans for ARDRI manufacture have a built-in contingency which will allow us to immediately increase production 20% and to double capacity within one year. It is felt that this flexibility in our build plans reduced the supply risk to a prudent level.]

- Market Acceptance of ARDRI as a Direct Replacement for Offset

  For ARDRI to reach the level of success called for in this years forecast, the practices of CRD decision makers must be changed. Possibly the greatest risk in the entire forecast is the assumption of the willingness of the CRD manager to place work on ARDRI which had previously been reserved for offset. While the accuracy of this assumption will not be known until product introduction, trends which have become evident in the CRD indicate increase in demand placed on the CRD and the offset environment in general. The industry's reaction to this extra burden has been a relaxing of traditional standards to get the job done. Several concessions that would have been made in accepting ARDRI cost, quality, and reliability have been made in the apparent acceptance of automated offsets and hybrid devices. ARDRI will be offering distinct productivity and throughput advantages and we feel, in the light of recent happenings, will be quickly accepted in this environment.

- Customer Sensitivity to Copy Quality/Reliability

  In Centralized Reproduction, even more so than in the Decentralized Reproduction environment, copy quality and reliability are major factors in relation to customer acceptance. Great efforts have been extended to ensure a reliability and copy quality on ARDRI which is as close to offset as possible at XRD. The customers perception of

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TAB 5f

Vol. II, Research and Engineering,
pp. 8-10

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

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V. REPRODUCTION AND COLOR

OVERVIEW

Since the development of the first three major xerographic products (813, 914, and 2400) which virtually shaped the low, medium and high volume copying market segments, broad strategies for maintaining our business in this "heartland" have been developed, refined and expanded. Most significant of these was Strategy Q which called for second generation successors for the 813/660 and 914/720 and for a duplicating system to develop new business in the high copy volume market segments above the 2400/3600 family. This strategy with some modification led to the establishment of the Decoy, 4000 and Ardri programs. The important concept of the major product upgrades or variants was a significant addition to the product strategy and has resulted in the establishment of the Agate, Diamond and Amethyst programs.

The present strategy remains as defined in the 1971 Long Range Plan to continue growth and development of "heartland" xerographic copier/duplicator product lines and to extend from the "heartland" into low volume copying, high volume reproduction and color reproduction. However, new information indicates that the present first and second generation products, with appropriate upgrades, will remain in the marketplace three to eight years longer than projected in the 1971 LRP forecast. This has made it imperative that the performance goals, priorities and schedules of the second generation variant programs be reconsidered. The importance of bringing out the remainder of the second generation products on a timely basis has not diminished, but the pressure to achieve rapid manufacturing volume buildup has moderated.

The product environment, key technical strategy issues and R&E response to these issues are detailed for the Decentralized, Centralized and Color Reproduction business areas in this section. You will note the increased attention to reliability, maintainability and copy quality in these discussions. Also, the development of explicit technology strategies for the critical xerographic components and subsystems of our machines has been identified as a major target. These strategies will form the base upon which the relevance of our technology efforts can be evaluated.

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

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DECENTRALIZED REPRODUCTION

Environment

- Market Summary

Convenience copying by unskilled operators, at copy volumes up to 25,000 copies/month constitute the bulk of this market, although occasionally higher volumes are found. Xerography is the dominant technology between 1,000 and 35,000 copies/month. Below 1,000 copies/month, the cost of fully automated xerographic machine systems becomes too high in comparison with Electrofax, the principal competitive technology. Above 35,000 copies/month average run lengths increase to the point where the convenience, flexibility, and short run throughput advantages of xerography are gradually cancelled by the lower expendables costs and high image quality of lithography, until at 150,000 copies/month lithography is completely dominant. At volumes above 150,000 copies/month, only 1.4% of the total copy volume in the U.S. in 1971 was produced by Xerox equipment. Input collation, which cannot be done lithographically, raises the upper limit of economic and throughput advantage for xerography to some extent, but it is difficult to achieve with sufficient reliability with uncontrolled full-sized paper input documents.

Much of Xerox's basic patent coverage is expiring. However, xerographic machine systems are highly complex, interactive and precise and require significant know-how to achieve high performance in an economical design. As a result, the first efforts of the competition have produced machines with unimpressive cost/performance characteristics, primarily from Japan. The exception has been the IBM 8700 which compensates for its low copy rate, slow first copy time, and relatively high manufacturing cost with excellent line image quality, excellent copy quality maintenance, and superior reliability--all achieved through superior engineering which was obviously focused on precisely those characteristics.

A second IBM device is expected to reach the market place at about the end of 1972. Its copy rate is anticipated to be in the 25-40 CPM range. Other performance characteristics are not known at this time.

Technical Strategy

Product Planning feels that the first generation products will hold in the market place much longer than was anticipated last year and that the build rates for the second generation will probably be slower. For RGE this means that the first generation

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products should be re-examined more carefully to see what can be done to improve their reliability and reduce service costs. Improvement programs which were formerly rejected because short product life made them not worthwhile may now be much more attractive.

These trends also mean that the objectives, priorities, technical strategies, and schedules for the second generation variant programs must be re-examined. Accordingly, a review of the technology programs against the needs of the second generation variants is needed. This review must reassess technology spending if the second generation variants should be delayed. It should also lay strong emphasis on the potential impacts of the various technologies on the reliability/service cost aspects of the second generation, since it is in this area where the effects of high stresses on the second generation machine systems and their narrower operating latitudes are most apparent.

Xerox is still serving the below-1,000 copies/month market poorly. The BPG Small Copier Committee which was formed in September 1971 has reached the conclusion that it is not possible to obtain a xerographic copier with the traditional features (book copying, multiple copy, automatic paper feed, etc.) at low enough unit cost to be really attractive. Study of machine manufacturing costs indicates that a large portion of unit cost is associated with those traditional features. Continuing strategy evolution is required to determine an optimum technical approach for the needed small copier.

The greatly increased sophistication, complexity and precision of the second generation products and the difficulties encountered in improving their image quality maintenance and overall reliability have made it obvious that major improvements in performance for future products will require technical progress on many fronts. R&E has as a challenge the development of a balanced technical strategy which addresses the xerographic core technologies - Photoconductors, Development, Materials, Fusing, Cleaning and Transfer, Illumination/Optics, and Paper Handling -- the Input/Output functions (such as sorting, automatic document handling, image buffers, etc.) and its own engineering and design skills.

Plans Summary

- Technical Perspectives - Product Programs

  The mainstays of the first generation product line -- the 660, 720 and 3600 -- were developed as upgrades of the 813, 914 and 2400. The technical base for this series of upgrades was the under-utilization of [illegible] xerography as it was practiced in the original products. [illegible] of the upgraded products simply used [illegible]

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TAB 6

CARTEL ARRANGEMENT WITH RANK XEROX

TAB 6a

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The objectives are as follows:

	1971	1976	1981
Market Share (%) (Copies)	49%	54%	56%
Annual Revenue *($Mil)			
Strategy Objective	$685	$1423	$2358
Base Case	685	1398	1972

* Rental Revenue and Supplies

STRATEGY

Xerox now offers a full product line which serves the total customer spectrum from low volume to high volume, low run length to high run length. Yet, there remain gaps in our marketing effort, either due to insufficient product power or high costs, which are being addressed by the second generation products and the follow-on development programs.

In previous years, our business strategy was to bring to market new products as quickly as possible and to use these products in areas presently served by first generation products considered to be competitively obsolete.

Our present strategy is still to develop and test new products as quickly as possible. However, the competitive outlook has changed and our first generation product power appears greater so that the need to rapidly replace present products is not as great as previously thought.

Existing and second generation products, including Decoy, are expected to enable us to achieve the Business Area growth objective through 1975. In 1972 and 1973, the product power of the 4000 should enable us to reach a 53% market share which will be held with the advent of Decoy through 1975. In the 1976-1978 period, we expect to experience a small loss of share as the second generation product power continues to carry U. S. Operations. From 1978 on, our market share may drop rapidly as new products become necessary for us to compete with the new competitive equipment.

As indicated above, there are several sectors where additional product power will be necessary in the middle 1970's. A very large market opportunity also appears to exist in the low volume area and our second generation machines are too costly to fully service the low volume user requirements. If we are to grow and maintain competitive effectiveness, we must provide full attention to all the marketing segments in the environment. We must encourage new customers to enter in the low volume segments and other customers to grow and move upward through the volume bands.

The products or product concepts that are currently planned to fill the gap identified in the 1976-1981 period, between our Base Case and the Business Area objectives, are the following:

- S/21 - a 500-2,000 CPM book copier under development at the Rank Xerox Development Laboratories in England, which utilizes SLIC technology. This product is targeted for introduction in the 1975-1977 period.

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TAB 6b

Vol. I, p. 82

Incremental improvements are being made by such efforts as late design phase revisions to upgrade maintainability, and studies on gathering and use of reliability/maintainability test data. By April, 1973, an improved formal field information system will be in place to close the loop with design activities. For longer range pay-off important steps are being taken in technology development. These include both improvement programs - on process controls and paper handling - and those aimed at radically new approaches.

ISSUE - INTERNATIONAL ENGINEERING

Our present emphasis is on minimization of conversion engineering required at Rank Xerox and participation on a Corporate committee to develop policy guidelines for international manufacturing and engineering. The broader issue of international research and development is the underlying key.

- Action

A small effort continues to develop an international standard design guide; this is now scheduled for completion in mid-1973.

Seminars with Rank Xerox and Webster engineers will be held in June, 1972, to develop recommendations on conversion engineering. These sessions will also establish the basis for requesting proposals (due November, 1972) from Rank Xerox to perform first generation improvements.

The major organizational questions are being addressed with ITG management. A more concentrated effort can now be given to this issue in 1972 following recent Rank Xerox responsibility shifts.

ISSUE - ORGANIZATIONAL STRENGTHS AND WEAKENSSES

As Xerox grows and R&E emphasis changes, an issue is always the proper match between the Division's missions and its organizational structure and style. Currently, key parts of the issue concern such topics as balancing of power and efficiency, the roles and structure of the spans of control, accountability versus resources, effective materials development, and program/functional management.

- Action

Considerable strengthening of the Division has been achieved in the past year, and additional improvements will be sought. Plans include a restructuring of the [illegible] development of an [illegible] system's organization by August, 1972, and initiation of a new technical management development program in July, 1972. Affirmative action targets for 1972 will be met by the end of the year.

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p. 18

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

VII. PROGRAMS/PRODUCT CONCEPTS IN DEVELOPMENT

The products or product concepts that are currently planned to fill the gap identified in the 1976-1981 period between our Base Case and the Strategy Case are the following:

- SAM - a 500-2,000 CPM book copier under development at the Rank-Xerox Development Laboratories in England, which utilizes the SLIC technology. This product is targeted for introduction in the 1975-1977 period.

- PONC - this program presently in the concept phase is aimed at the lowest end of the market (0-1,000 CPM), and currently presents major risks with respect to product feasibility and targeted costs. December, 1972 is the targeted date for a technical and market strategy review of the program.

- AGATE/Diamond - follow-on products or upgrades to the 4000 and DECOY respectively, which include features such as integrated sorting, multiple paper trays, roll paper feed (Diamond only), improved fusing and other technical advancements, including improved reliability. These products are expected in the 1975-1976 time frame.

AGATE and Diamond will not only bolster the competitive effectiveness of the 4000 and DECOY against "systematized" competitive products, but will also provide back-up development in the event that the basic 4000 and DECOY programs cannot be adequately upgraded to serve the needs of the mid to late 1970's. Most important are the qualitative improvements of these products in terms of service cost reductions and the impact on profits and equally essential, customer sensitivity to reliability. Additional improvements in both the revenue and profit outlook will come from the use of the added features of Diamond and AGATE to enable the 4000, 3600 and 7000 products to remain in the higher volume bands. We would be using products which are projected to be less costly to produce and service in lieu of the more expensive and technically complicated equipment.

The introduction of Diamond and AGATE is not expected to obsolete the 4000 and 7000 products. These populations will be maintained through strategic actions which will offer the customer a choice of features. The multiple product offering should increase our competitive effectiveness in an environment where many combinations of machines and features will become available.

During the latter half of the 1970's ARDRI will begin to enter the upper volume band (15,000-25,000 CPM) in the Decentralized Reproduction market. The impact of this high capability duplicator will be relatively minor, however, and the discussion of its attributes will be undertaken in the Centralized Reproduction section. The AGATE program will reduce even further the need to bring ARDRI into this market.

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Vol. II, Decentralized Reproduction,
ALTAIR PROGRAM

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

U.S. OPERATIONS
PROGRAM LIFE PLAN — ALTAIR PROGRAM

RESEARCH AND ENGINEERING (cont.)

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- Rank Xerox and Fuji Xerox positions with respect to Altair have not been formulated.

- Altair will be designed so that it can be coverted to a Rank Xerox design without major redesign or development. Specifically: B4 paper size will not be precluded within the basic machine envelope; space and mounting provisions for 50 cycle components will be provided.

ES/TECHNICAL RISKS

Altair is judged to be a low risk program since no technological gaps have been identifie Risk primarily is ability to meet performance specifications within time schedule. The probability of success (i.e., meeting both performance goals and schedule) has been estimated at 0.80 for the combined phase schedule and 0.75 for the early issue schedule. In addition to the technical problems indicated by feasibility testing, the following areas are also of concern and are being addressed by Engineering with highest priority:

- Ability to define the operator interface requirements adequately such that ease of operator recovery of jams and missorts is attained.

  A range of specific alternatives have been developed and are in process of being reduced to several basic approaches. A decision methodology has been developed which will aid in choosing the best alternative in conjunction with a team formed with representatives of other functional departments. There is high confidence in incorporation of the chosen alternatives in the prototype design; however, there exists some doubt as to whether all elements of one alternative can be incorporated in preprototypes. The overall confidence of resolution is .80 - .90 probability of successful meeting of schedule and specification.

- Viability of multiple bin unloading concept due to stack scatter and required set separation.

  Basic approach is to proceed with current design with the expectation that it will be acceptable in the customer environment. This acceptance will be tested internally. The current design approach does not preclude single bin unloading to an unacceptable level. Confidence of resolution is .90 probability that an acceptable design will result.

- Impact of moving bin concept and inherent stability on Operator/Tech Rep safety.

  High emphasis is being put on all safety aspects of the Altair design. Agreeable criteria are being developed and the design will be measured against these criteria. Additionally, a review for safety is planned. Overall confidence is .85 of successfully meeting design criteria; however, there would be a major impact on the product's viability if success is not attainable in all aspects of Operator/Tech Rep safety.

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TAB 6e

Vol. II, Centralized Reproduction,
ARDRI PROGRAM

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

U. S. OPERATIONS
PROGRAM LIFE PLAN ARDRI PROGRAM

RESEARCH AND ENGINEERING (Cont'd)

Xerographic Process is optimizing the ADC process which controls the development process with resultant improved copy quality.

Materials -- emphasis in 1972 -- 1973 will be on developing:

- a high temperature fatigue resistant pressure roll material and fuser roll coating in an effort to increase component life of the CHOW fuser.
- generation of ferrite final release specification and qualification of material's vendors for ferrite carrier.
- a furnace black toner (present channel black is phasing out to meet ecology requirements).

Transfer Process is presently pursuing the development of a detach corotron configuration (side looking) to provide effective detack and charge leveling ionization and maintain its effectiveness over long periods in the toner environment.

INTERNATIONAL

The ARDRI Performance Specification, S-708, Section 16, specifically identifies areas in the machine which require consideration as a part of the international design. Six (6) resident engineers from Rank Xerox are presently working with ARDRI engineers in the process of developing the international design. Fuji Xerox has determined that it will not redesign the system for their own paper handling needs but will buy a limited number of Rank Xerox/USO machines for special applications.

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Vol. II, Information Processing,
p. C-6

b. A complete Terminal Product Matrix and preliminary Product Specification has been started within ISG Systems Product Planning to incorporate XCS and all other Xerox Terminal requirements. Completion date is September 1972.
Responsibility: D. H. Arnold

Action No. 5. Rank-Xerox - Prior to the IPS Presentation, Rank-Xerox forwarded a copy of their "Strategy for the Development and Exploration of the Office Communications Environment". In addition, Rank-Xerox participated in the final preparation of IPS processing the concept of a power typewriter, which would offer a unique approach to the Document Creation environment.

a. The office communications environment strategy recommends the testing of a non-impact typewriter terminal through an in-house rented communications network. This process would lead to an eventual product entry that would allow Rank-Xerox to offer total Information Processing as an evaluation of the facts developed. The concept proposed is not directly opposed to IPS as to the future, but the starting point and implementation is significantly different. The consolidation of their strategy with IPS will be a part of the International Planning Conference to be scheduled in November/December, 1972
Responsibility: D. H. Arnold.

b. The Power Typewriter (Buffered Typewriter, Correspondence Writer) offers a complementary product to IPS and actually extends the direction. Rank-Xerox has prepared a general functional description of the product and market they have defined.
Responsibility: F. Lassman - Rank-Xerox.

c. A follow-up meeting was held in Rochester and California (Diablo) with Rank-Xerox representatives on May 18, 1972. The following schedule was agreed to:

- Review Diablo/Devil with Rank-Xerox management and recommend future areas of joint participation. June/July 1972.
- Develop Devil/Buffered Typewriter Base Case based on Market Research. October/November, 1972
- Hold International Planning Conference to discuss Base Case and future plans based on Market Research accomplished above. November/December, 1972
- Develop joint international plan for Information Processing Strategy. January 1973.

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TAB 6q

Vol. II, Research and Engineering,
p. 86

Exhibit "A" Xerox 1972 Long Range Plan (Extracts)

ISSUE - INTERNATIONAL ENGINEERING

During the past year, R&E has been involved in the question of international engineering and specifically, addressing how to minimize the conversion engineering required at Rank-Xerox. R&E has also participated on a Corporate Committee which is trying to develop guidelines for the international manufacturing and engineering with emphasis on a policy which would set an international product specification and then fix worldwide design responsibility in one engineering managing unit. A small effort has continued to develop an international standard design guide; however, this doesn't address the major organizational question.

During 1972 a more concentrated effort will be given to this problem which is now made easier by the recent appointment of Clyde Mayo as Head of Rank-Xerox Engineering. The initial step is to hold a seminar (June, 1972) with Rank Xerox and Webster engineers to discuss specific details about each of the existing products and planned future products. The output of this seminar will be a recommendation on how to minimize conversion engineering tasks. Further, we intend to solicit proposals from Rank-Xerox organization by November, 1972, on first generation product improvements. The advantages to the Corporation of performing this work overseas should be given full consideration. These include the ability to break in a new design group on xerography on improvements as contrasted with new design, the availability of technical capacity overseas, and the advantages which accrue from a new group of engineers taking a fresh look at the problems.

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E X H I B I T

XEROX DOCUMENTS REGARDING
CAPABILITIES OF
POTENTIAL COMPETITORS

1965 SCM PROFILE

E 935

Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

To See Distribution

Date November 29, 1965

From R. J. Chapel

Location Midtown - 2

Subject SCM - A COMPETITIVE PROFILE

Organization Marketing Research and Development Manager

At the request of Flic Evangelist, I have attached a copy of the SCM Competitive Profile, the second in a series of reports on our major competitors.

Similar studies on other competitors are now in preparation. You will receive a copy of each Competitive Profile as released.

R. J. Chapel

RJC/NGC
Attachment

Distribution:

E. K. Damon
J. H. Glavin
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J. C. Wilson

xc: F. G. Evangelist
R. K. Dombrowski

E 936

Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

SCM

COMPETITIVE PROFILE

Prepared by:
Marketing Research and Development

December 3, 1965

E 937

Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

I. CORPORATE ASSESSMENT

E 938

Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

COMPETITIVE ASSESSMENT

Introduction

During the past five years the SCM management have worked to re-establish the company, financially and organizationally. A product of several mergers, the company had deteriorated to a marginally profitable position with an apparent loss of direction culminating in a profit loss during fiscal 1

Rejuvenated, it now represents a strong competitive threat not only to Xer but to many companies serving the office equipment market. SCM has experienced recent significant successes in typewriters and calculators as well as copiers and expects to experience equivalent results in their products developed to serve the peripheral data processing market.

Product Development

In rebuilding the company, management has apparently determined their initial market position to be one of "profitably second," in as many areas of the office equipment market as their product development capabilities will allow. Products introduced in the last few years have been generally low in price suggesting a market direction in favor of the larger numbers of smaller volume users.

There are few overt signs that management has entertained the full scale application of fundamental research to the development of new products. On the other hand, product development stands out as a singularly significant asset. In the past five years they have brought to the market relatively inexpensive electric typewriters (including the only electric portable in the market), several manual calculators, an electronic calculator, peripheral data processing equipment and three copiers (Models 33, 44 and 55).

The fact that start to finish product development time on many of these units has been less than two years testifies to the significance of their product development capability.

That the product introductions have been successful might best be indicated by the fact that at least one of the products has, on introduction, experienced a backlog of orders of six months and all to date, except peripheral data processing, have been profitable.

Marketing

The company has at its disposal a relatively large sales and service organization (about 2,000 service and salesmen) serving all products. In an effort to strengthen their direct copier sales organization, 200 supply product salesmen were recently assigned to copier products bringing the total copier force to 500-600 salesmen and 350 servicemen excluding dealers.

Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

Marketing (continued)

The company has not paid highly competitive sales income. As a result, sales personnel turnover rates are high. With the introduction of machine rental programs, ability to pay may improve but a strong sales force should remain a key to deterring their penetration in the copier field for the next year or two.

Distributors are used to develop copier sales coverage in outlying areas. This has resulted in problems of price control (particularly in paper prices) and will probably provide additional problems in the future under rental plans announced. There is still no sign, however, that the company plans to discontinue the use of this distribution channel.

Management

President Emerson Mead joined SCM in 1960 after demonstrating his ability to expand two other companies. Under his leadership the company has experienced much of its recovery, although the influence of E. H. Litchfield, Chairman of the Board, has also been strong. Both men have announced plans to continue expansion through acquisition and have made specific references to the education market. Therefore, there will probably be other areas of competitive experience felt by Xerox over the next few years from this company.

Second level management in SCM is young. This group combined to bring about a successful revitalization of the company and should, therefore, be considered an important asset.

Future Possibilities

Its aggressive, youthful management, coupled with its demonstrated ability to develop new products, could place SCM in second position in the copier market, behind Xerox, within the next five years.

Although SCM's copier division has shown the greatest growth of any division during 1965, the gross revenue was only 20% of their total sales for the year. Management efforts and allocation of funds and resources to the copier market must consider the needs of the other 80% of their business represented by other divisions.

The success of SCM as a company and the financial resources available to other divisions in the future depends on the success of their data processing division. The continuing drain on the financial resources by this division is predicted by management to end in 1967, but the risks of the computer industry are great for a company traditionally in the consumer and small business market. It may take considerably more time to generate a profitable position for the company in this industry. If this is so, plans for expanding other divisions within SCM may be delayed.

Future Possibilities (continued)

At the same time, planned conversion to rental pricing plans by the copier division will place heavier financial burdens on the company. With increased pressure on profits at such an early stage of the new growth, efforts to improve the marketing strength of their organization and at the same time continue to expand product lines will probably not be as rapid as copier division management would prefer.

SCM management has expressed and demonstrated an interest in expansion and acquisition. With a commitment to expand their copier market penetration and the need for a higher caliber copier sales force, it can be speculated that SCM may be seeking to acquire a firm that can offer them the products to expand their imaging line (perhaps in the area of duplicating) and at the same time provide the quality and quantity of salesmen SCM needs for improved coverage of the market. The possibility should also be considered that SCM represents an important potential acquisition for or merger with a corporation seeking to expand its position in the market.

1970 COMPETITIVE
THREAT ESTIMATE

E 941

Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

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COMPETITIVE THREAT ESTIMATE

The 1970s

Analytical Support Team
Systems Analysis Section
Advanced Development Department

April 13, 1970

Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

III COMPETITOR EVALUATION

This section examines 18 U.S. corporations that are presently active in or known to be interested in the office copier/duplicator field. A similar evaluation of foreign competitors and perhaps additional domestic corporations with strengths in this field is planned but not included in this Threat Estimate. The corporations selected are felt to be those most important to Xerox at least through the first half of the 1970's.

The methodology of the analysis is as follows: four major corporate characteristics were assessed to determine a company's potential for success in the copier and duplicator markets. These characteristics are technology expertise, marketing skill, engineering/manufacturing ability, and management strength. Each company was rated on each characteristic on a scale of 0 to 10. The characteristics were then given a weighting factor to indicate the relative importance in the total picture of a successful copier/duplicator manufacturer. For each company the weighted sum of the four characteristics yields a total score for "Success Potential" on the scale 0 to 10. These scores are shown in Table I. This part of the evaluation was made on the basis of skill or competence, independent of the size of the company. That is, a company's marketing strength, for example, is based on the efficiency, agressiveness and success of its marketing organization and not on its absolute size.

The second part of the analysis applies a size factor ranging from 1 to 10 which is used to multiply the "Success Potential" scores. The final score on which the companies are ranked then represents an estimate of its ability to exploit an advantage in the copier/duplicator marketplace. These figures also are shown in Table I.

A more detailed explanation of these factors follows:

Technology - is defined as the research and development skills available to a company. The skills of importance to copier development are emphasized, for example, process chemistry, physics, mechanics, electronics, optics. A company that does little research and development itself does not necessarily receive a low score if agreements with other companies have been established. Examples are Savin-Minox and Scott-Canon.

Marketing - is defined as the expected or known ability to market office products. Factors influencing the rating include: effectiveness of sales and service organizations, size relative to overall size of company, type of sales organization (direct, dealer oriented, retail, etc.), and experience with office products.

Engineering and Manufacturing - is defined as the ability of a company to carry out production engineering and manufacturing of complex electro-mechanical equipment. Evaluations are based on current product lines: types of products, cost effectiveness, reliability, and special capabilities such as film coating, vacuum deposition of metals, chemical processing, etc.

Management - Is defined as the quality of the company's management as it applies to their competitive position in the office copier field. For companies now in the business, their current position and growth rate are used in the evaluation. For new or potential entrants, their managements' agressiveness and past success in new product ventures was considered.

Size - The size of company affects the resources that can be brought to bear on a copier or duplicator product line. Total size in terms of revenues is a useful indicator but may often be misleading. In general, the revenues from office related products were used to determine size factors. However, this method could not be used consistently for all companies in the list. For companies with little or no office product lines, such as Polaroid, an estimate of size was based on total revenues.

An evaluation of the 18 companies based on the above factors is contained in Table I. A brief summary of the companies in order of rating is given below. A basic underlying assumption is that each company has, or will develop, a competitive product and has firm intentions of exploiting it. A later section will examine this question of intention in more detail. The purpose of this analysis is to evaluate potential threat under the above assumptions.

The information sources used in this analysis were primarily the company briefs prepared by the Competitive and Market Analysis Group in the Marketing Department (which are included as an Appendix to this report), plus business periodicals, annual reports, stock analyses and other publications. No special knowledge of these corporations, their present activities or plans is claimed.

IBM: Rating 96.0

This 7 billion dollar corporation is capable of providing the severest competition over the next 10 years. With a model office product sales force, aggressive management and excellent research and manufacturing skills they are almost ideally suited to this market. Technology gaps in photoreceptors and coating processes give them just less than a perfect rating.

3M: Rating 48.0

Presently Xerox' largest domestic competitor, the 3M Company has an agressive marketing force, and has demonstrated its technology skills by developing several innovative copying processes. The high score on skills together with the size of the company will make them a very important competitive influence.

Friden: Rating 32.0

The company has considerable expertise in the office product market and although relatively small, it is backed by the resources of Singer, the parent corporation. It is felt that Singer's management is committed to the success of Friden in the copier market.

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SCM: Rating 27.6

Smith Corona Marchant gets moderate scores on technology and marketing and high scores for management and engineering/manufacturing. The company also has considerable resources available and will continue to be a major influence on the market.

Addressograph-Multigraph: Rating 25.6

In spite of reliability problems on the AMCD, Addressograph seems well skilled in engineering and manufacture. Apparent corporate uncertainty about strategy and previous cut-backs in the copier sales force produce moderate scores in other skills categories. Resources are relatively large, however, and the overall picture indicates that AM can make considerable progress in the copier and duplicator markets.

Kodak: Rating 23.0

Although Kodak has a fine technology base, their lack of marketing strength in direct sales of office products weakens their overall skills rating. Kodak's resources are considerable, however, and their known interest in copying processes for use with microfilm could lead to development of a copier line. Given a firm management commitment to the office copier business, Kodak could become a considerable threat.

Remington-Rand: Rating 22.0

Although Remington rates high in engineering and manufacturing skills, their marketing strength is only average, and their management and technology strengths are below average. The technology weaknesses could prove to be a considerable obstacle in their attempted manufacture of selenium drums for the Statikon plain paper copier. The large resources available compensate to a degree for the lack of basic skills.

Dupont: Rating 20.5

Dupont has an excellent technological base and is known to have two copier processes under development. Their marketing experience however is not adaptable to the copier field and also their manufacturing know-how is not hardware oriented. Resources are considerable and could put Dupont into a relatively strong competitive position if their management commits itself to copier products.

Pitney-Bowes: Rating 18.0

Pitney-Bowes has a large well-trained sales force in the copier market but the revenues produced are quite low. This suggests that their marketing skill is about average. On the other hand engineering and manufacturing capabilities are a strong asset. Research and development expenditures are surprisingly low, considering the reports that a plain paper copier is under development.

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Scott (Canon): Rating 14.7

Scott, like Dupont, has skills that are not readily transferrable to the manufacture and sale of copier products. Their basic technology skills are weak, but are currently boosted by agreements with Canon Camera of Japan. Size of resources is a major factor in Scott's ranking as a potentially serious competitor.

Saxon: Rating 12.0

Saxon's skills appear to be just above average across the board. Resources are fairly substantial however, and thier product mix is broad.

Polaroid: Rating 11.7

Polaroid's considerable strengths are not well adapted to the office products business, especially in the area of marketing. Their overall skills rating is one of the lowest of all the companies considered, but this is offset by the resources available.

A.B. Dick: Rating 11.4

A.B. Dick rates high on marketing, engineering and manufacturing skills but low on management strength. In addition its research and development effort is below average, although their current agreement with Ricoh strengthens this factor. Due to its relatively small size, the company appears low down in the list of competitors.

Dennison: Rating 8.0

In spite of Dennison's past successes, it is felt that the current status of the company is below average on all 4 skill factors. This is based on their problems of the last 18 months and indications of increasing lack of interest in copiers on the part of Dennison's management.

Apeco: Rating 6.0

Apeco's successes in the last 2 years give them a relatively high skills rating of 6.0. However, the small size of the company suggests that they will not have the resources available to ensure a much wider penetration of the market than they have obtained up to now.

Savin (Minox): Rating 5.7

Savin has very limited research, engineering and manufacturing ability. Their technology has resulted from negotiating agreements with companies such as Minox of Germany and Applied Research of Australia. With its present size and corporate structure, Savin is thought to have limited competitive prospects.

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Itek: Rating 5.3

Itek does not currently produce a copier product but has developed a line of microfilm equipment. Itek has a reasonable technology base and could develop a copier line perhaps based on their RS process. However, this process requires considerable improvement before a competitive product is possible. The resources of the company are low. A serious threat from Itek is not judged to be feasible.

Royfax (Litton): Rating 4.8

Due to apparent lack of Litton's commitment to the copier market, Royfax' performance has been very poor. Even though available resources are considerable, it appears at the bottom of the list. Without a major change in management attitude, Royfax will not be a threat of any significance.

Other Domestic Companies

Two other domestic companies should be noted, although they have not yet indicated an interest in the copier market. They are Burroughs and National Cash Register (NCR). Both companies are heavily involved in the business equipment market with emphasis on calculators, accounting machines and computers. These companies have been very successful in selling to the banking industry in particular.

A line of copiers and duplicators would seem to be a rational extension of each company's business. However, current management interest seems to be focussed on extending their lines of data processing equipment. In particular both Burroughs and NCR are developing lines of computer terminals and other peripheral data processing equipment.

If either company develops a copier product or acquires one by agreement with companies such as Canon or Ricoh, the following ratings would apply:

	Tech.	Mktg.	Eng./Mfg.	Mgmt	"Success Potential"	Size	Total Score
NCR	8	6	8	6	6.8	6	40.8
Burroughs	6	6	8	8	6.9	4	27.6

As can be seen above, given a product and firm management commitment these companies could become a major competitive influence. However, it appears that both companies have a strong inducement to continue expanding and broadening their current product base.

TABLE I MAJOR COMPETITORS

Company	SKILLS						
	Technology Weight 20%	Marketing Weight 35%	Eng. & Mfg. Weight 20%	Management Weight 25%	Success Potential	Size Factor	Total Score
IBM	8	10	10	10	9.6	10	96.0
3M	8	8	8	8	8.0	6	48.0
Friden	6	8	10	8	8.0	4	32.0
SCM	6	6	8	8	6.9	4	27.6
AM	6	6	8	6	6.4	4	25.6
Kodak	8	2	4	6	4.6	5	23.0
Rem.Rand	4	6	8	4	5.5	4	22.0
DuPont	8	2	4	4	4.1	5	20.5
Pitney-Bowes	4	6	8	6	6.0	3	18.0
Scott (Canon)	6	4	4	6	4.9	3	14.7
Saxon	6	6	6	6	6.0	2	12.0
Polaroid	8	0	4	6	3.9	3	11.7
A.B.Dick	4	8	8	2	5.7	2	11.4
Dennison	4	4	4	4	4.0	2	8.0
Apeco	4	6	8	6	6.0	1	6.0
Savin (Minox)	6	6	2	8	5.7	1	5.7
Itek	6	4	6	6	5.3	1	5.3
Royfax	2	2	4	2	2.4	2	4.8

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IV COMPETITIVE TRENDS/EXPECTED PRODUCTS

The approach selected to estimate the competition which Xerox will face in the 1970's is based on the assumption that a competitive threat of consequence exists only when the ability to offer the customer significant improvements in performance, features or price is attained by a corporation with the capabilities to effectively capitalize on that improvement.

This section attempts to project what competitive developments can be expected based upon who is capable and interested and how known technologies can be extended.

- Trends in the 1970's

General - Customers will in general demand greater convenience and versatility in both copier and duplicator products in the 70's. Emphasis will be placed on labor saving features which reduce the time, training, and skill levels required of the operators. Overall reliability will be crucially important. Increased throughput capabilities via input and output handling systems will be stressed. Features such as size reduction, variable paper weights and sizes, Instant ON, fast first copy out times, low noise levels, standard power requirements, compact size and pleasing appearance will increase in importance in the copier market. In the duplicator field, there will be an acceleration of the present trend to greater automation. Emphasis will be placed on speed, solids and halftones, size reduction, duplex, final finishing and color capabilities.

A significant demand for color copying devices will emerge during the 70's, particularly in specific applications, but will not reach nearly the proportions of traditional black and white copying.

Plain Paper Copiers - The primary threat of competitors in the 70's will be towards products producing copies on "ordinary" paper. The primary technology will be transfer electrophotography (xerography) based on new organic and/or inorganic photoreceptors and a host of innovative processing approaches and techniques. The Competitive and Market Analysis group projects that almost one-half of all competitive copies will be made on ordinary paper by 1976.

Electrofax Copiers - Although machines producing copies on ZnO papers will continue to be produced and the numbers of Electrofax copies will increase, the market share of this approach will drop substantially. It is projected that no breakthroughs will occur in this technology to rescue it from declining to a minor role in the copying market by the end of the decade. It has been called a "deadend" technology.

The inherent advantages of xerographic type processes; i.e. plain paper quality, flexibility of design, speed, and cost; will force Electrofax manufacturers to search out specialized markets where their process does not put them at a disadvantage.

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Duplicators - There will be a strong, continuing trend towards adaptation of lithographic techniques to the office environment. Through greater automation of the mastermaking process and press operation lithography will represent strong competition to other processes attempting to expand into the higher volume duplicating market. The combination mastermaker/direct lithographic press (i.e. Addressograph-Multigraph's AMCD) may in fact make inroads in the office "convenience duplicator" field.

Expected Products in the 70's

Table II summarizes the key competitive product introductions that can be expected over the next ten years. The rationale leading to these conclusions is as follows:

IBM IBM represents far and away the most significant threat to Xerox' present position in the industry. IBM is known to be pursuing technologies very similar to traditional xerography and is believed to have developed an organic photoreceptor potentially superior in several respects to our Selenium Alloys. As indicated by the extremely high rating of 96 on the competitor scale, they also possess all of the requisites to successfully exploit a desirable line of products.

Although it will take some time to develop their know-how to the point where highly reliable products can be designed and mass produced, IBM can be expected to pursue the total copier/duplicator market with commitment and vigor. It is projected they will capitalize on their organic photoreceptor technology and expand their product line from the two they are presently believed to be developing (a 12 cpm console to be introduced in '70 and a 40-60 cpm duplicator in '71 or '72) to blanket the market in much the same way as we have done. It is difficult to say in what sequence these will appear but assuming a machine development cycle analogous to ours (3-5 years), and assuming no major problems are encountered with their initial entries, IBM can be expected to introduce its next major product in 1973-74 followed by another major entry in 1975-76. The more probable sequence would be a higher speed, sophisticated, "Gamma-like" processor with a selection of input/output accessories followed later by a "Decoy-like", small, desktop copier. A speed up of their initial device, perhaps to the 20-30 cpm range, should be expected about 1973 also.

In general IBM can be expected to emphasize the system approach to product designs which will yield a wide variety of accessories and/or similar models tailored to specific customer applications. This approach can be expected to lead to a combining of IBM's products later in the decade perhaps in the form of CRT display copiers; integrated secretarial stations which combine typewriter, copying, dictation, and communication functions; application of electrophotography to high speed data printouts; COMP units, etc.

In summary, once IBM climbs the learning curve in handling xerographic technologies, their strengths, experience and obvious intentions in office products market will make them the most significant competitor to Xerox in the 1970's.

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3M

3M has long been an active participant in the copier field with their original Thermofax and more recent, Dual Spectrum systems. Their continuing interest is demonstrated by their recent announcements of the VHS and Color-in-Color devices.

3M has traditionally relied on proprietary processes, developed internally, which are based on thermo/chemical and related techniques. This has, and it is projected, will continue to provide 3M with a unique and profitable position in the field.

3M can be expected to apply their Dual Spectrum technique to the very lowest end of the market and to profit from the expansions of this segment, for instance in home copiers.

Their VHS "Magne-Dynamic" technique will be further developed into a family of devices, with a higher speed (40-50 CPM) version introduced in 1972-73. Newer techniques can be expected to follow from their vigorous and innovative research activities.

It is not anticipated that 3M will pursue the systems approach to product design in the sense of offering the full range of input/output accessories, etc. Their diversity of corporate interests will not allow them to devote the needed resources to keep up with Xerox and IBM in this regard. Rather, 3M will continue its present pattern of exploiting its technology through devices aimed at specific market applications.

Friden

Friden, Division of Singer, Inc., has laid claim to becoming number two in the copier field with their plain paper machine based on a reusable ZnO based photoreceptor. They have announced that a 15 CPM, desktop unit (the 1070) will be available this year. Friden's present intentions are to sell only. If so, the success of the 1070 is dubious. Customers will refrain from investing $1800 today only to find a much improved copier available either from Friden or another company tomorrow. An example of a previous similar mistake by Friden was selling a new electronic calculator without a square root capability, and then adding this feature to a second model a few months later. Buyers of the first model could not make a trade for the improved machine. To be successful with the 1070, Friden can be expected to fall in line and lease also.

This particular technology is restricted in that it does not lend itself to the very low end of the market, due to its complexity (analogous to our products) nor to the higher end, due to the speed constraint of the photoreceptor. Further, since Friden was not the developer of this technology and since it does not possess in-house technical strengths in these fields, it is doubtful if they will build from this base to better and faster machine processes.

Rather, it is projected that Friden will seek to exploit this particular approach to its fullest. Their introduction of a faster, console model (perhaps 30-50 CPM) in about 1972-73 should be expected. Additional models in the 10 CPM to 50 CPM range are anticipated thereafter.

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Friden's announced intention is to offer a price advantage plus high reliability with their 1070 machine. If they succeed in meeting their reliability goal (which will be very difficult) they will present a formidable challenge. Their process appears to offer only slight cost advantages over present xerography so if they offer a significantly lower pricing plan, it means they are willing to settle for a smaller margin than Xerox. The impact of the 1070 on electrofax competitors could be far more serious than on Xerox. ZnO paper users could switch to ordinary paper copy at comparative prices, for the majority of electrofax devices are in that market segment to which the 1070 will be addressed.

In summary, Friden is capable of carving out a significant portion of the copying market with their 1070 and derivates thereof. Their primary impact will be on electrofax suppliers. In the long run, however, Friden will not be able to build up a full family of copier/duplicator products unless they purchase new technology from outside. It is projected that they will establish a profitable position in the market but do not represent a long term threat of consequence to our business.

Electrofax

The suitability of the electrofax zinc oxide process to low volume copying will result in continued growth over the next ten years inspite of severe competitive pressures from plain paper copiers. The quality and appearance of zinc oxide copies has improved of late and the low machine price gives the technology an advantage in the low end of the copier market.

The major domestic competitors in this field at present are: SCM ($68M), A-M ($ 8M), Apeco ($41M), and Dennison ($31M) and Savin ($28M). The revenue figures are for 1969. During the next few years a change in the market leader is anticipated. Probably by the year 1975 the major electrofax manufacturers will be: SCM, A-M, Remington-Rand, Pitney-Bowes, Scott-Canon and Saxon. This ranking is based on the assumptions in Section III and depends a great deal on management commitment. The companies listed certainly have the skills and resources to dominate the electrofax market.

The overall electrofax market, approximately $320M in 1969 should double by 1976 although increasing competitive pressure will result in a significant decline in its market share. During the next few years increasing numbers of plain paper copiers will be introduced. The first machines in the copier market to feel the pressure will be the electrofax machines. At the low end of the scale electrofax copiers will be affected by a range of inexpensive Dual Spectrum machines from the 3M Company. By 1976 the electrofax market may well be limited to a very narrow segment in which the process has a cost advantage over both Dual Spectrum and plain paper copiers.

Competition among electrofax manufacturers will increase leading to a shaking out of the smaller companies. A company such as SCM will be able to withstand competitive pressure better than a Savin for example.

If the market for color copiers appears to be a large one, some of the electrofax manufacturers will enter the field. As mentioned in the technology section, a zinc oxide color process is quite feasible. Pressure in the black and white market could accelerate this development.

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COMPANY BRIEFS

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Special Competitive Report

Business Planning

COMPANY BRIEFS

Xerox
Private
Data

March 13, 1970

Issued by: J. F. Goodr

Approved by: L. J. Sheldt

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Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

INTRODUCTION

This report examines twenty companies that are either current or potential copier and duplicator competitors. The analysis of each company is intended to provide a basic overview of each company.

The companies examined were selected as being most important to Xerox at this time. As the copier market continues into the 1970's, additional firms will be attracted to the field, and company briefs will be added to this report.

This report is intended to be a reference guide to management on other firms in the industry.

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Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

A. B. DICK

FINANCIAL ($ MILLIONS) 1969

Total Company		Copier (U.S. & Canada) 1969	
Revenue	$98	Revenue	$13
Net Income	$7	% Total Company Revenue	13%
% Total Revenue	7%	R & D Expenses	$.7
		% Copier Revenue	5%

COPIER OPERATIONS (U.S. & CANADA) 1969

Installed Units Mid-Year	16,500	Servicemen	400*
Copy Volume Billions	.360	Branches	67*
Salesmen	450	Dealers	500*

*Also sell & service offset.

TREND OR SHORT RANGE GROWTH RATE OF COPIER OPERATIONS

The A. B Dick 675 manufactured by Ricoh of Japan has been a successful copier product for A. B. Dick. With little copier research, Dick is dependent upon others for new products. With the technical abilities of Ricoh, A. B. Dick has the potential to successfully market and penetrate new copier areas.

TECHNICAL ANALYSIS

Research efforts have emphasized improvements in present equipment and developing new equipment utilizing existing techniques rather than developing new processes. An example of this work is the introduction of automated offset features in 1964.

A major new concept development resulted from research work performed by Stanford Research Institute. A.B. Dick research and engineering personnel developed the "Videojet" printer.

The non-impact printer uses the "Stanford" patent ink jet deflector system. Speed is 250 characters/second. The unit uses ordinary paper with printout on standard pre-printed business forms. The Videojet is designed for routine printing via conventional telephone lines.

MARKETING ANALYSIS

Since 1965, A. B. Dick has developed a new momentum, primarily in the offset market.

A. B. Dick's growth in the offset market has been significant. In the past two years, its share of offset unit sales has increased from 25% to 35% of the market. Much of this success is due to the strength of its marketing organization and to its products, which are reliable, durable and perform well.

Historically, corporate management has emphasized a strong customer-oriented marketing organization and high quality products. The marketing organization, for its size, is estimated to be the most effective in the duplicator industry. The sales force is well managed, aggressive, and considered competent.

The A. B. Dick distributor organization is the most extensive of any firm in the duplicator industry. A. B. Dick encourages distributors to exclude other product lines, by providing a full line of products to sell.

The company's major weakness lies in its traditional failure to enter rapidly expanding markets until the growth pattern has been identified and substantiated by other firms.

The company was late in introducing a product for the copier market. A diffusion transfer copier was introduced in 1959, five years too late to achieve an appreciable market penetration. (By this time, the diffusion transfer market was already severely restricted by the Thermofax copiers of 3M.)

Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

In succeeding years, electrostatic copiers dominated the market. Finally, in 1965, A. B. Dick entered the dry copying market with the A. B. Dick version of the Savin Sahara Electrostatic copier, after the market had become developed by firms with superior positions in both product features and customer acceptance.

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INTERNATIONAL BUSINESS MACHINES

FINANCIAL ($ MILLIONS) 1969

Total Company		Copier (U.S. & Canada) 1969	
Revenue	$7197.3	Revenue	None
Net Income	$933.9	% Total Company Revenue	None
% Total Revenue	13%	R & D Expenses	Unknown
		% Copier Revenue	None

COPIER OPERATIONS (U.S. & CANADA) 1969

Installed Units Mid-Year	None	Servicemen (OPD)	5,000
Copy Volume Billions	None	Branches (OPD)	200
Salesmen (OPD)	3,000	Dealers	None

TREND OR SHORT RANGE GROWTH RATE OF COPIER OPERATIONS

Our best judgment is that IBM plans to introduce two plain paper copiers during the next 16 months.

The most significant of these is War Admiral, because it offers high speed and advanced features. Since the machine will be IBM's second copier product, it is considered likely that the unit will be sold by a specialized copier sales force within the IBM Office Products Division. IBM has experienced some technical difficulties with the photoreceptor for War Admiral, which may not yet be solved. Therefore, the actual date of production is somewhat in doubt, even within IBM.

The IBM 1000 is most likely to be sold through the existing Office Products sales force, which also sells typewriters and dictating equipment. Because of this lack of marketing concentration, we expect that its impact in 1970 will be minimized.

MARKETING ANALYSIS

The Office Products Division has annual sales of $500 to $600 million. Their marketing organization is the standard in the business world. The IBM O.P.D. customers are the same as Xerox customers but more widespread. Although it will require a degree of effort and time, IBM will adapt themselves to the copier market.

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MINNESOTA MINING & MANUFACTURING

FINANCIAL ($ MILLIONS) 1969

Total Company		Copier (U.S. & Canada) 1969	
Revenue	$1,547	Revenue	$120
Net Income	$ 170	% Total Company Revenue	8%
% Total Revenue	11%	R & D Expenses	$4.8
		% Copier Revenue	4%

COPIER OPERATIONS (U.S. & CANADA) 1969

Installed Units Mid-Year	115,000	Servicemen	750
Copy Vol. Billions	1.500	Branches	85
Salesmen	1,250	Dealers	130

TREND OR SHORT RANGE GROWTH RATE OF COPIER COPERATIONS

3M has been holding its own through aggressive marketing and machine attachments (automatic document feeder and sorter), in spite of the low capacity and complexity of its Model 209 copier. The 609, a high speed version of the 209 (without book copying capability) was introduced late last year. The 3M VHS, an ordinary paper, 20 copy/minute copier will broaden the 3M product line. The VHS technology, presently unknown, is not expected to impact the market until after 1970. 3M Color-in-Color, the 609 and the VHS are expected to provide 3M with an opportunity to maintain its share of the market, and will allow 3M to grow with the market.

TECHNICAL ANALYSIS

With an emphasis on research and development, 3M has developed about 40,000 products which are sold worldwide. Further technological developments within the copier industry are more likely to come from 3M than any other leading competitor.

MARKETING ANALYSIS

Business Products Systems, Inc. (BPSI) has 85 company branches and 130 authorized distributors. Distributors may sell products manufactured by other firms, which are not directly competitive with 3M.

BPSI direct sales offices assign salesmen either to particular industries in large metropolitan centers or to territories. Each copier salesman sells the full copier product line and may also sell other products of the Graphic Products Group. Some branches have specialists for handling audio-visual products, microfilm equipment, and engineering products.

Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

PITNEY-BOWES

FINANCIAL ($ MILLIONS) 1969

Total Company		Copier (U.S. & Canada) 1969	
Revenue	$237	Revenue	$12
Net Income	$14	% Total Company Revenue	5%
% Total Revenue	6%	R & D Expenses	$.4
		% Copier Revenue	3%

COPIER OPERATIONS (U.S. & CANADA) 1969

Installed Units Mid-Year	15,700	Servicemen	425
Copy Volume Billions	.170	Branches	207
Salesmen	525	Dealers	None

TREND OR SHORT RANGE GROWTH RATE OF COPIER OPERATIONS

Pitney-Bowes is expected to remain a relatively strong competitor in the low volume copying market. With its large, well trained sales and service force (25% of which are selling copiers), the company is expected to increase its share of the low volume copier market. Pitney-Bowes is not expected to become a competitor in the high volume copier or duplicator markets for at least several years. This is primarily due to its limited research and engineering capability, as well as a lack of familiarity with the high volume reproduction environment.

MARKETING ANALYSIS

The first of a line of electrostatic copiers was introduced in 1966. However, it was not until mid-1967 that it was debugged and available in production quantities. Because of start-up costs and technical problems in the earlier period and forced rapid expansion of the service and sales force, copier operations have not been profitable through 1969. Management thinks the line is solidly established and this business will contribute to earnings in 1970. The line consists of four models in the medium

to low volume user market. - Currently P-B is selling outright 85% of the units and renting 15%. Copier supplies are an important adjunct to this business and can be expected to be a source of substantial repeat sales as the number of units in service increases. It is estimated that sales and rental of copiers and supplies contribute about $15 million (6% to total revenues). The copier sales force now numbers over 500. It is the company's belief that copier revenues will increase at a rate faster than for the company as a whole and that profit margins will approach that of the older lines within the next year or two.

Thomas Collator was acquired by Pitney-Bowes in early 1966. Thomas collators are also distributed by A. B. Dick under its own name.

A substantial asset to P-B is its direct marketing force. Over the years, the company has acquired a good reputation for quality products and strong service capability as a result of maintaining regular contact with the more than 500,000 users of its products. The domestic sales force is made up of 2,200 salesmen and managers, 2,600 servicemen and technicians and 1,200 supporting and clerical personnel, making a total of 6,000 people. This is an increase of 62% since 1966. This field organization operates out of 207 company owned offices in principal American cities.

TECHNICAL ANALYSIS

Pitney-Bowes reportedly has its own ordinary paper copier under development.

Pitney-Bowes entered into a preliminary agreement with DuPont in August of 1969 concerning a DuPont developed office copier system. DuPont is known to be working on several copier models, all in the early stages of development. In January of 1970, DuPont and Pitney-Bowes by mutual agreement terminated their agreement. No plans for further development work on the system have been made known.

Pitney-Bowes has a strong marketing organization but not a strong research and development organization. It is feasible that Pitney-Bowes may seek out another company with technical abilities similar to DuPont.

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REMINGTON RAND

FINANCIAL ($ MILLIONS) 1969

Total Company		Copier (U.S. & Canada) 1969	
Revenue	$1,686	Revenue	$16
Net Income	$67	% Total Company Revenue	.9%
% Total Revenue	4%	R & D Expenses	$1.6
		% Copier Revenue	10%

COPIER OPERATIONS (U.S. & CANADA) 1969

Installed Units Mid-Year	12,800	Servicemen	150
Copy Volume Billions	.230	Branches	NA
Salesmen	500	Dealers	NA

TREND OR SHORT RANGE GROWTH RATE OF COPIER OPERATIONS

Remington Rand has a strong office products sales force and a commitment to office equipment and the graphic arts areas. Remington is now establishing a research and development organization for the copier/duplicator market. Remington will continue to show excellent progress (30% annually) through 1970 in terms of machine placements. Remington is presently believed to have several copier and/or duplicators under development. Remington could become a major force in the copier market within three to five years, if the Statikon II or one of its other machines under development prove to be marketable and reliable machines

TECHNICAL ANALYSIS

Remington Rand is not believed to have a large research and development staff working in the copier/duplicator area.

Remington Rand is presently hiring extensively to set up within its organization, a stronger research and development capability as well as a market planning group for copiers/duplicators. Several new products are believed to be under development.

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Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

MARKETING ANALYSIS

Remington Rand's desire to gain experience through the marketing of the Copystat 500 has been realized to its fullest. While Remington is marketing the Copystat 500 as the Remington R-2 and gaining experience in the market place, every effort is being made by both Remington and Arlside to bring the Statikon II (ordinary paper book copier) to market. Remington Rand obtained from Saxon/ Copystatics the worldwide right for three years (August 1966 to August 1969) to market the Copystat 500 under its own trade name. Remington had the right to manufacture the machine outside the U.S. but was required to purchase its U.S. requirements from Copystatics. This agreement was not renewed.

Remington Rand has signed an agreement with Arlside (U.K.) to market the Statikon ordinary paper copier in the U.S., and also has the right to manufacture the Statikon copiers in the U.S. Remington Rand is presently subsidizing development of a new Statikon book copier (Statikon II). This agreement is reported to give Remington exclusive rights outside Great Britain to market Statikon copiers.

Remington Rand has recently signed an agreement to market Apeco copiers under the Remington Rand label.

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Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

SAXON BUSINESS PRODUCTS, INC.
DIV. OF SAXON INDUSTRIES

FINANCIAL ($ MILLIONS) 1969

Total Company		Copier (U.S. & Canada) 1969	
Revenue	$160	Revenue	$10
Net Income	$5	% Total Company Revenue	6%
% Total Revenue	3%	R & D Expenses	$1.0
		% Copier Revenue	10%

COPIER OPERATIONS (U.S. & CANADA) 1969

Installed Units Mid-Year	6,200	Servicemen	60
Copy Volume Billions	.112	Branches	35
Salesmen	200	Dealers	175

TREND OR SHORT RANGE GROWTH RATE OF COPIER OPERATIONS

Saxon Industries will continue to devote its efforts to expanding its profitable Saxon Business Products Division. Its agreement with Remington Rand has allowed Saxon Business Prod. t establish a small but effective sales force at a minimum of expense. The recent announcement of the P-50 and CBC-1 copiers broaden its product line to impact the low and medium volume market. Saxon introduced a prototype of its combination duplicator called the CD-7500. It is capable of 7,500 copies per hour and is similar to the AMCD.

Within the next two years, Saxon Business Products is expected to grow 50%, and could continue to grow through the next five years at approximately 20% annually.

TECHNICAL ANALYSIS

Saxon Industries' acquisition of Saxon Business Products (formerly called Copystatics) brought with it John Van Auken, a pioneer in electrostatic technology. Van Auken was formerly associated with Apeco as Director of Manufacturing and New Product Development, and with SCM as General Manager of its Microstatics Division.

H 2 Jones

Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

Van Auken created Copystatics Corporation, which was acquired by Saxon in 1966. He became President of the Copystatics Division of Saxon, but is now President of Equipment Development Corporation, a Saxon subsidiary which does the research and development for Saxon's copier products.

Van Auken was the prime developer of the Copystat 500. He has an employment contract with Saxon which extends through 1974.

MARKETING ANALYSIS

Saxon Industries is one of the leading independent paper merchants in the U.S. Saxon has been pursuing a progressive expansion program since 1960 via acquisition and internal efforts. Since that time Saxon has acquired several paper merchants and in 1966 acquired Copystatics. The acquisition of Blake, Moffit, & Towne in 1968 has more than quadrupled the sales of Saxon. Saxon Business Prod. has 200 salesmen and 60 servicemen. (The low number of servicemen is attributed to the fact that Copystatics performs no on-sight repairs of copier equipment. Each salesman is required to carry two to three extra machines in his company-provided stationwagon. If a breakdown occurs, he will replace the one to be serviced with one from his car. The machine is then returned to the branch office where it is repaired.)

Saxon is reported to be increasing its service force in anticipation of the introduction of the Saxon CD-7500.

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Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

SCOTT PAPER COMPANY

FINANCIAL ($ MILLIONS) 1969

Total Company Revenue	$731.5
Net Income	$56.1
% Total Revenue	8.2%

TREND OR SHORT RANGE GROWTH RATE OF COPIER OPERATIONS

The Scott 3D copier is a product of Canon Camera Company of Japan. The 3D was initially test marketed on the East Coast by the Plastic Coating Corporation, a subsidiary of Scott Paper. It produces 6 copies/minute. Scott introduced the 3D Mark II at the 1969 BEMA show, a speeded up version capable of making 12 copies/minute. The earliest this unit will be available is the 3rd quarter of 1970. Another subsidiary of Scott, Graphic Reproductions GmbH of Germany, has marketed the copier outside of the United States and Canada.

The market impact of the 3D copier is dependent on the marketing strength of the Plastic Coating Corporation, which will initially market the machine through dealers. Later, Scott may train its own salesmen and servicemen.

If initial marketing efforts are successful, Scott may be selected to bring Canon's ordinary paper copier (the model 1100, shown in 1969) to the market. Combined with the technological expertise of the S. D. Warren Division and the progressive attitude of the parent organization, the firm could become a future threat in the copier market.

TECHNICAL ANALYSIS

S. D. Warren Company, although being small in the paper industry, brings to Scott an expertise in the technological areas of paper products.

MARKETING ANALYSIS

The combination of S. D. Warren's technological abilities and Plastic Coating's production and research staff, provides Scott Paper the necessary skills for further expansion into the copier market.

Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

SMITH CORONA MARCHANT

FINANCIAL ($ MILLIONS) 1969

Total Company	
Revenue	$850
Net Income	$ 17
% Total Revenue	2%

Copier (U.S. & Canada) 1969	
Revenue	$68
% Total Company Revenue	8%
R & D Expenses	$2.0
% Copier Revenue	3%

COPIER OPERATIONS (U.S. & CANADA) 1969

Installed Units Mid-Year	47,000	Servicemen	360
Copy Vol. Billions	1.094	Branches	101
Salesmen	700	Dealers	400

TREND OR SHORT RANGE GROWTH RATE OF COPIER OPERATIONS

SCM has devoted its corporate attention and resources since 1966 to two major acquisitions - Procter-Silex and Glidden Paints. Some disappointing reliability problems and concern over the adequacy of its service force, caused management to cut back on research and marketing expenditures. The SCM 111 is a 16 copy per minute version of the SCM 55. The unit is about two years late for the present market.

It is not likely that SCM will improve its market position even with the higher capacity 111 unit, and will not re-establish many direct sales branches which have been eliminated. In spite of its earlier proven machine development skills (the Model 55 took only two years from concept to delivery), its corporate problems are likely to delay any significant change for at least three years.

TECHNICAL ANALYSIS

SCM's research and development activities are broad, embracing both new product areas and new developments in diversified fields. Among the diverse fields of future interest to SCM's research are programmed teaching, industrial training devices, and basic research in physics, optics, chemistry and cybernetics.

Exhibit Xerox Documents Regarding Capabilities of Potential Competitors

Research in the Photocopy Division has been directed to variations in electrostatic paper, toner, and copying processes. Improved toner, paper and imaging techniques are said to be under development.

There are few overt signs that management has entertained the full scale application of fundamental research to the development of new products. On the other hand, product development stands out as a singularly significant asset.

The fact that start to finish product development time on many of SCM's new units has been less than two years testifies to the significance of their product development capability.

MARKETING ANALYSIS

The company has not paid highly competitive sales incomes. Until compensation is corrected, this deficiency will remain a significant deterrent to building a strong sales force and will effect the company's penetration of the copier field.

The company uses distributors to develop copier sales coverage in outlying areas. This has resulted in problems of price control (particularly in paper prices) and will probably provide additional problems in the future under announced rental plans. There is still no sign, however, that the company plans to discontinue the use of this distribution channel.

PROJECTED COPY VOLUME (1977)

(Based Upon Competitor Scores Derived)

	Competitor Score	% Share	Total Projected Copy Volume (billion)	Total by Types of Processes		
				Dual Spectrum	Electrofax	Pla Pap
IBM	96.0	27.0	7.56		2.10	7.
3M	48.0	13.5	3.78	2.60		1.
Friden	32.0	9.0	2.52			2.
SCM	27.6	7.5	2.10		2.10	
AM	25.6	7.0	1.96		1.96	
Rem. Rand	22.0	6.0	1.68		1.68*	
DuPont +	20.5	6.0	1.68			1.
Pitney-Bowes	18.0	5.0	1.40		1.40*	
Scott-Canon	14.7	4.0	1.12		1.12	
Saxon	12.0	3.5	.98		.98*	
A.B.Dick	11.4	3.5	.98		.98	
nnison	8.0	2.0	.56		.56	
Apeco	6.0	1.5	.42		.42	
Savin	5.7	1.5	.42		.42	
Itek	5.3	1.5	.42		.42	
Royfax	4.8	1.5	.42		.42	
	357.6	100%	28.0	2.60	12.46	12.

*Currently electrofax manufacturers, but may enter the plain paper market.

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